JPRS-CEA-86-111

17 OCTOBER 1986

China Report

ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

LIAOWANG VIEWS CHANGES IN CHINA IN PAST 10 YEARS

HK190611 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 36, 8 Sep 86 pp 5-6

[Article by contributing reporter: "Ten Years of Colossal Changes in the Divine Land"]

[Excerpts] It has been learned from the State Statistical Bureau that in the past 10 years from 1976 when the "gang of four" was smashed to 1986, and particularly since the 3d Plenary Session of the 11th CPC Central Committee held in 1979, the Chinese economy, thanks to the implementation of the policy of invigorating the domestic economy and opening up to the outside world, has entered a new period of development, thereby effecting a great change in both the economic and social fields.

According to statistics, from 1977 to 1986 (figures in 1986 are estimated only), China's national income increased an average of 9 percent a year. The average annual growth rate during the 10 years of the "Cultural Revolution" was only 4.9 percent. The accumulated national income increased by 36 yuan for every 100 yuan of products, a rise of 160 percent over the average of 14.1 yuan in the 10 years before 1977. The average national income created by every laborer in society was 954 yuan, an increase of 50 percent over the 10 years before 1977, if calculation at fixed price is considered. The consumption level of the Chinese people increased at an average rate of 5.8 percent. The average annual growth rate in the 10 years before 1977 was only 1.9 percent.

Eventful Progress Has Been Made in the Rural Economy

Over the past 10 years, the state has adopted a policy of rehabilitating the economy in the rural areas and supported agricultural production in varied forms. Especially since the 3d Plenary Session of the 11th CPC Central Committee, the overconcentration in production and management and equalitarianism in distribution have been somewhat overcome by the widespread institution of the contracted household responsibility system linking remuneration to output. Meanwhile, the enthusiasm of the peasants in farm production has been greatly sparked after the long-term unjustifiable prices of farm products were enhanced, the agricultural structure was readjusted, the diversified productive activities were expanded, and rural fair trade was revived. In just a few years, China's rural economy has been rehabilitated and achieved great progress, which attracted worldwide attention.

From 1977 to 1985, China's total agricultural output value grew 9 percent each year (if rural industries are excluded, the growth rate was 6.7 percent), but the growth rate for the 10 years before 1977 was 3.3 percent only. If compared with the 10 years before 1977, the annual output of major farm products has greatly increased during the 10 years before 1977 and 1985. The annual output of grain increased on the average from 247.95 million tons to 343.71 million tons, an increase of 38.6 percent; cotton from 2.26 million tons to 3.415 million tons, a rise of 51.1 percent; oil-bearing crops from 3.866 million tons to 9.292 million tons, a jump of 140 percent; sugar crops from 167.05 million tons to 362.19 million tons, an increase of 120 percent; and the annual output of jute, bluish dogbane, flue-cured toabcco and tea doubled and redoubled. Meanwhile, forestry, animal husbandry and fishery also developed at a faster pace. The plan for a 6 percent growth rate of this year's total agricultural output value (if rural industries are excluded, the growth rate will be 3 percent) is expected to be achieved barring be no dreadful natural disasters.

Economic results in agricultural production have markedly improved. Between 1977 and 1985, the total output value of every peasant increased by an average 5.4 percent each year, but the growth rate for the 10 years before 1977 was only 1 percent. Thanks to the popularization of fine varieties of farm crops, the use of plastic film, the readjustment of the distribution of agriculture and the adoption of other technological measures, the per unit yield of major farm products was raised by a wide margin. If compared with 1976, per mu yield of grain in 1985 increased by 46.8 percent, cotton by 130 percent, jute and bluish dogbane by 86.5 percent, sugarcane by 73.8 percent, and peanut by 97 percent.

Along with the rise of the agricultural productivity, more and more surplus agricultural labor force has shifted to other fields of production and the rural economy has developed in an all-round way. By the end of 1985, the work force engaged in the secondary and tertiary industries in the rural areas of the country reached 67.14 million, double the figure of 1980. In 1985 the output value of industry, transport, commerce, and building industry in the rural areas came to 262 billion yuan, constituting 42.3 percent of China's total product of the rural society.

A diversified socialist rural economic structure characterized by different scales of organization and varied forms of management has now taken shape in China's rural areas, thus opening wide vistas for rural economic construction and social development.

The Steady and Proportionate Development of Industry

Over the past 10 years, the state has adopted a series of policies to improve the mix of industrial products and provide for faster growth in the light and textile industries, thus vigorously stimulating the continued, steady, and coordinated development of industrial production. From 1977 to 1985, China's total industrial output value has increased at an average annual growth rate of 11 percent. Of this, the annual growth rate of light industry was 12.5 percent, but that of heavy industry was only 9.6 percent. This year's growth rate of industrial production is planned to be 8 percent. This can be achieved if we make great efforts.

Further progress has been made in the reform of the urban economic structure, with the focus on invigorating the enterprise. By the end of 1985, state owned industrial enterprises which had replaced profit delivery with tax payments accounted for 71.8 percent of the total of state-run industrial enterprises. Meanwhile, throughout the country more than 3,000 small state-run industrial enterprises were contracted or leased to the collective and individual.

The Domestic Market is Flourishing and Diverse Forms of the Economy Develop Simultaneously

Over the past 10 years, obvious changes have taken place in the domestic market as a result of the expansion of industrial and agricultural production and the rise of the purchasing power of urban and rural residents. With the exception of grain and edible oil, now many commodities can mainly satisfy consumer demands. Meanwhile, the sales of consumer goods have grown rapidly along with the promotion of many new products. Between 1977 and 1985, the total volume of retail sales increased at an average annual growth rate of 13.9 percent. With the factor of price increases deducted, the actual growth rate was 10.5 percent. It is expected that this year's sales of consumer goods will continue to grow luxuriantly.

In circulation, over the past few years the old single-channel and multi-link system has been converted into one with more channels, fewer links, and varied forms of management, thus readjusting the commercial structure. While giving full play to the leading role of state-run commercial enterprises, we have also made efforts to revive and develop collective and individual businesses. At present the country has 106.7 billion retailers, restaurants and service shops with a total of 252.6 billion shop employees, an increase of 750 percent and 320 percent respectively over those of 1976. Meanwhile, there are 122.2 billion self-employed laborers, more than 40 times as many as that of 1976.

Our Economic Relations With Other Countries Are Ever More Strengthened and Internal Economic Cooperation Is Now in the Ascendant

Over the past 10 years, China's economic relations with other countries have been greatly strengthened. By the end of 1985, the volume of import and export totaled U.S. $69.6 billion, up by 400 percent over 1976. The vigorous growth will continue this year. It is estimated that the volume of import and export in 1986 will exceed U.S. $700 billion.

By implementing the principle of making an active, steady and effective use of foreign funds, China designated four special economic zones and opened 14 coastal cities and three economic development zones to the outside world. This has formed a forward area for opening China to the outside world and created favorable conditions for attracting foreign funds. From 1979 to June 1986, China approved establishment of more than 6,800 Chinese-foreign enterprises, cooperative enterprises and enterprises run exclusively with foreign investment as well as 36 contracts for joint exploitation of offshore oil, with a total amount of U.S. $17.5 billion of foreign investment funds. Of this [?] U.S. $5.4 billion has been used (excluding compensation trade). So far, one-third of these enterprises have been put into operation or gone into business. Meanwhile, China has imported over 14,000 items of foreign technology, including 300 large and medium-sized projects. By the end of June this year, 127 of these projects were put into production. This has contributed to strengthening China's basic industries and transport and promoting technological advances. During the period of time from 1979 to June 1986, China imported a certain number of 300,000 and 600,000 kilowatt generating sets, equipment for 500,000 volt power transmission, preset control switchboards, equipment for satellite ground stations and technology for manufacturing color television tubes, thus filling the gaps in our science and technology. At the same time, China is active in contracting foreign construction projects and providing cooperative labor services to other countries. Over the past 5 years, China has contracted over 2,700 projects of various types in 88 countries and regions, with a total of U.S. $5.7 billion.

When China opens up to the outside world, economic cooperation inside the country is progressively developing. This has disrupted the system of separating departmental management from regional management. During the 6th 5-Year Plan, items of economic and technological cooperation among regions and between regions and departments rose to 70,000. Of this, agreements on more than 40,000 items were reached in 1985, exceeding the total of the previous 4 years.

A Number of Key Construction Projects Have Been Built

Over the past 10 years, the scale of investment in the country's economic construction has been continuously enlarged. Between 1977 and 1985, the investment in fixed assets of the units owned by the whole people reached 799.3 billion yuan, an increase of 110 percent over the previous 10 years. In the orientation of investment, the previous tendency of laying stress on heavy industry and despiring light industry as well as paying attention to productive construction and ignoring daily life services changed. In capital construction the proportion of investment in heavy industry was altered from 50 percent in the previous 10 years to about 40 percent and the proportion of investment in productive construction from 83 percent to 63 percent, and the proportion of investment in housing, culture, education, public health, and urban public utility was raised to 37 percent from 17 percent, a bit higher than the level of 33 percent during the 1st 5-Year Plan.

Technological transformation in the existing enterprises has been accelerated. From 1977 to 1985, the proportion of investment in capital construction of state-owned units was lowered to 67.3 percent from 77.4 percent in the previous 10 years and the proportion of investment in technological transformation was raised to 32.7 percent from 22.6 percent. In recent years, the focus on carrying out extensive expanded production of light industry, textile, and machine-building has been shifted to stress on carrying out intensive expanded production.

Over the past 10 years, China has built a number of key construction projects. They are the first-phase project of the Baoshan Iron and Steel Complex in Shanghai, the heavy steel rolling mill of the Wuhan iron and steel works; the ethylene project with an annual output of 300,000 tons in Daqing, a dozen of large petrochemical works in Luzhou of Sichuan Province, Anqing of Anhui Province, and Liaohe of Liaoning Province; a large number of large and medium-size energy and transport projects such as power stations, oilfields, coal mines, coal washing plants, the railways, the highways and harbors. From 1977 to 1985, power-generating capacity increased by 13 percent and oil extracting cacity by 30 percent over the previous 10 years. Meanwhile, production capacity of chemical fibre grew by more than 400 percent and the handling capacity of berths by 62 percent.

Our Scientific and Technological Undertakings are Full of Vigor

After the "gang of four" was smashed, the government devoted great efforts to promoting intelligence development. In 1977 the college examination system was restored. At present there are 1,016 colleges and universities in our country, with a total enrolment of 1.7 million. Meanwhile, the government also trained a large number of postgraduate students and sent tens of thousands of students abroad for advanced studies.

Initial successes have been achieved in restructuring education. Some faculties which were ignored in regular colleges and universities such as finance and economics, political science and law, light industry, textile, cooking and catering, and electronics have been set up again and good progress made toward universal elementary education in all the cities and one-third counties of the country. Meanwhile, there has been rapid growth in vocational and technical school education, having a total enrolment of 4.61 million. Different types of adult education have constituted an important component part in our educational undertaking. Now China has 1,216 institutions of higher learning for adults in various forms such as schools offering courses by radio and television, training schools for workers and office staff, and technical schools for peasants, as well as 600 schools offering courses through correspondence and periodicals, and night schools for adults, with a total enrolment of 1.72 million. The number of middle schools for adults has come to 50,000, with a total enrolment of 5.47 million. During the 6th 5-Year Plan, more than 30 million young workers and other employees finished their basic training in common scientific and technological knowledge.

The Living Standard of the People has Markedly Improved

Since the 3d Plenary Session of the 11th CPC Central Committee, the government has adopted a series of policies and measures to improve the people's living standards. In the rural areas, the incomes of peasants have increased rapidly along with the development of the rural economy and as a result of the readjustment of purchasing prices of farm and sideline products and reduction and exemption of certain taxes. According to a sample survey among the peasants, per-capita net income of the peasants in 1985 reached 398 yuan, an increase of 200 percent over 134 yuan in 1978. From 1978 to 1985, the annual average growth rate was 16.8 percent, or 14.8 percent after allowing for price increases. In the cities, the incomes of workers and other employees have also increased notably after the government readjusted their wages, increased bonuses and allowances, and created more jobs for urban residents. According to a sample survey, per-capita [?] urban residents on personal living expenses in 1985 reached 752 yuan, or a rise of 140 percent over 1978. From 1978 to 1985, the annual average growth rate was 13.2 percent, or 8.5 percent, after allowing for price rises.

With the increase of their incomes the consumption level of both urban and rural people has been raised rapidly, with notably changes in the consumption pattern. Between 1979 and 1985, their consumption level, if calculation at constant price is considered, rose on an annual average rate of 8.6 percent. Foodstuffs, clothing, and household articles have increased in variety and specifications and improved in quality. Over the past 5 years, we have completed 650 million square meters of new residential housing space in cities and towns and 3.2 billion square meters in the countryside. Of course, the Chinese people's present living standards are still low. In the cities, public utilities including public vehicles, nurseries and workers' living quarters are not sufficient, the incomes of some urban residents are still low and their basic needs in food and clothing cannot be met.

A New Imbalance

Over the past 10 years, a new imbalance has also appeared in China's economic development. This can be generally seen in our inadequate control over the increase of social demands, lack of effective measures to improve economic results and lack of strict supervision over the relationship between quality and quantity and between growth rate and economic results. At the same time, while laying stress on invigorating enterprises, we failed to adopt timely measures to strengthen and improve macroeconomic control. Especially in the past 2 and 3 years when the economic situation took a turn for the better, the ambitious scale of investment in fixed assets, the rapidly growth accumulation rate, and the lack of control over consumption funds resulted in a steep increase in social demands and increasing strains on energy, transport, and supply of raw materials. At the same time, when demand exceeded supply, some enterprises put undue emphasis on seeking output value and profits with no regard to the quality of products and manufacturing costs. Generally speaking, many problems left over by history such as backwardness in production technology, poor economic management, the irrational structure of production, poor economic results and the low living standard of the people can hardly be solved in a short period of time. Therefore, our tasks for economic reform and readjustment are still very hard.

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RENMIN RIBAO URGES DEVELOPING BUYERS' MARKET

HK230741 Beijing RENMIN RIBAO in Chinese 15 Sep 86 p 5

[Article by Liu Guoguang [0491 0948 0342]: "A Third Discussion on the Buyers' Market"]

[Text] In 1980 and 1983, I respectively wrote two articles (one was "A Discussion on a Few Issues Concerning Regulation by Plans and Regulation by the Market Mechanism" published in 1980 in Issue No 8 of JINGJI YANJIU; and the other was "A Second Discussion on the Buyers' Market" published in RENMIN RIBAO 23 September 1983, page 5) to explore issues related to the buyers' market. Our theoretical circles have always differed in their views on whether it is possible to establish a buyers' market in a socialist country on a national scale with supply to some extent bigger than demand and whether we can regard the establishment of a limited buyer's market as an issue of principle in our economic development and reform. As these issues affect our ability to create the fine environment needed for reform in the 7th 5-Year Plan, I think it is necessary to state my views once again.

For a long time, the increase in the supply of materials, goods and commodities in our country has lagged behind the increase in the demand with effective purchasing power. This often gave rise to a so-called seller's market, in which demand exceeded suppy, and sellers dominated the market. The emergence of prolonged supply shortages in our market and the creation of the sellers' market was caused by implementing a traditional economic development strategy which pursued high output value and growth rate and by implementing a traditional economic system that rejected the relations of commodity and currency, characterized by the practice of everyone eating out of the same big pot. The continuous supply shortage and the seller's market have, in fact, strengthened our traditional economic pattern. An economy with short supplies often requires highly centralized administration and management and the method of centralized allocation and distribution. This runs completely counter to the development of the commodity economy. As a result, the economic structural reform carried out in accordance with the requirements of the commodity economy may encounter many difficulties and much resistance. Precisely for this reason, quite a few Chinese and foreign economists hold that in order to provide a fine economic environment for our economic structural reform and the development of our commodity economy, we must strive to create a relaxed situation with a total supply a little bigger than the total demand, and thus establish a buyers' market.

Since 1978, under the guidance of the resolutions of the 3d Plenary Session of the 11th and 12th CPC Central Committees, our country's economic life has been undergoing diverse and deep changes. Our country's economic development strategy and economic system have also been transforming into new patterns. At the beginning of the 6th 5-Year Plan, because of the upsurge of rural reform and agricultural production and because of the restricted growth of total social demand, due to our conscientious implementation of the principles of economic readjustment, there was an initial emergence of a relatively relaxed economic situation and even an emergence of some aspects of a buyers' market. This has provided favorable conditions for economic structural reform. However, as the two systems coexist during the process of the transformation of patterns, the inertia of the traditional system of pursuing high output value and growth rate has time and again emerged, and there is still the thirst for investment and the desire for quantitative expansion. Also, the long-standing past restrictions on consumption have been broken and we have failed to coordinate the form designed to enliven our microeconomy with the reform of our macroeconomic management. As a result, the buyers' market that has emerged in the past few years has time and again fluctuated and has not been stable for a long time. In particular, from the fourth quarter of 1984 to 1985, as the total demand resulting from our investment and consumption rose sharply and as the economy developed at an excessive pace, an overheated situation with supply shortages once more emerged in our national economy and thus reversed the fine environment needed for reform. As a result, we are forced to make great efforts to stabilize our economy and straighten out our environment, and to a certain extent, to slow down the pace of reform in the coming couple of years. Through our efforts in last year and this year, we have gradually stabilized our over-heated economy, but we have not yet put an end to the situation of excessive distribution of our national income, characterized by total demand exceeding total supply. Therefore, the first basic task put forward by the 7th 5-Year Plan is to continue to create a fine environment for economic structural reform and strive to maintain a basic balance between total demand and total supply in order to enable our reform to develop even more smoothly. This is entirely necessary and correct.

In the understanding of quite a few comrades in our economic theoretical circles, the task raised by our 7th 5-Year Plan of striving to keep, for the most part, a balance between total supply and demand means regarding solving the problems of excessive distribution of our national income and striking a balance with reserve strength. Some Eastern European economists also hold that in carrying out economic reform, we must maintain some reserve funds, materials and goods, and foreign exchange to counter the emergency demand in the process of the readjustment of interest relations in our reform. This balance with reserve strength is what Marx was referring to in volume two of his "Das Kapital." Concerning the reproduction of fixed assets, he said that production in a socialist society should exceed direct demand every year and have a little "surplus in production," and that "this surplus is a benefit rather than a disaster, but in a capitalist society, it is a disaster."

("Collected Works of Marx and Engels," Vol 24, p 526) The reserve strength resulting from our production exceeding direct demand is a very important factor in the planned control and regulation of a socialist society. This surplus of social production over direct demand and balance with supply a little bigger than demand means that we have a limited buyers' market. Of course, it is not easy to achieve this basic balance, but we must regard this as a clear principle and goal to strive to attain. Only under a situation with such a basic balance and market can competition between sellers emerge, which will force those who carry out production operation to improve their technology and improve their management and service attitude. Only in this way can there be the motivation and pressure to carry out the reform. If there is a sellers' market and a shortage of supply in our market, like "an emperor who never worries that his daughter will be unable to find a husband" our enterprises can sell all their goods and will never bother to improve their technology, management, or service attitude. Moreover, when there is a great shortage of materials, goods, funds, and foreign exchange, it will be difficult to satisfy the demand for funds, materials, goods, and foreign exhange in the process of the readjustment of interest relations in our reform or to satisfy unexpected emergency demand. As a result, we will encounter obstacles in our process of reform.

However, there is opposition to the view on the establishment of a limited buyers' market with supply a littler bigger than demand. Over the past 30 years, there has been a theory in the Soviet Union which later passed to China that the increase in total demand in a socialist country always exceeds the increase in production and that this reflects the superiority of socialism. This means that a shortage in the economy, a shortage of supply, supply by rations, and lining up to buy things display the superiority of socialism. In the past, there was a background in practice for this theory, but now it becomes ridiculous. However, even today, there are still some people who think that socialism cannot solve the problem of shortage of supply and that a buyers' market is an illusion. Why do we want socialism if it cannot solve the problem of shortage of supply? Of course, most comrades hold that the problem of shortage is not inherent in the socialist system, but is caused by the rigid economic system and traditional development strategy and can be solved through economic structural reform and through changing our development strategy.

There is another view that in order to maintain a certain growth rate to fulfill the task of modernization, we should adopt a mild inflationary policy to stimulate our economic growth; therefore, an increase in money supply that leads the growth of our economy and a slow rise of prices are indispensable for the development of our commodity economy and our economic structural reform. Over the past few years, some people have held the opinion that China can allow a little financial deficit and inflation, which may be conducive to its economic development. Those who hold this view fail to see the difference between our country and many developed Western countries and some developing countries. For Western countries that have economies in which there is always insufficient effective demand, financial deficits and inflation are measures to deal with depression that is aimed at increasing effective demand and thus preventing the emergence of an economic crisis while stimulating economic growth. In a period of economic stagnation in a non-socialist developing country, it is also necessary to stimulate an economic take-off through inflation. However, a socialist economy is always in a vigorous state. From a long-term point of view, for a big country like ours with an economy characterized by demand exceeding supply, the main factor that restricts economic growth is shortage of resources rather than shortage of demand. An excessive money supply will only aggravate the shortage of supply in our economy and make it difficult to transform the long-standing sellers' market into a buyers' market. This will be detrimental to the emergence of an economic environment that can give full play to the role of the regulation by the market mechanism. Of course, in the process of developing the commodity economy, it is necessary for money supply to go before economic growth to some extent. In addition, the readjustment of the irrational composition of price in the process of reform will also evitably cause some rise in prices. But we should exercise strict control and make progress steadily in order to avoid too fierce a fluctuation. As for the rise of prices that is not caused by the readjustment in the composition of price, we should do our best to control it in the process of the adjustment and avoid the price rise that is entirely caused by excessive money supply in order to create a relaxed environment for our reform.

There is a third view that a relaxed environment with total supply a little greater than total demand can only be the consequence of the reform. Therefore, it is not the precondition for the reform. At present we can only adapt ourselves to the situation whereby demand is a little greater than supply in carrying out our socialist construction.

Certainly, the final emergence and establishment of a relatively stable buyers' market in our socialist economy will not be possible until we have carried out a thorough reform in our traditional structure and entirely removed the causes in our structure for quantitative expansion and investment thirst. This is indeed a consequence of the reform, but we cannot sit back and wait for the emergence of a relaxed environment and then carry out reform. However, we should also see that through a gradual change in our development strategy and a relative relaxation of our economic plans and with the impetus given by our economic structural reform, it is not impossible for a buyers' market to emerge. As a matter of fact, at the beginning of the 6th 5-Year Plan, such a trend did emerge. At present, through continuing to intensifying and improving our macroeconomic control, we will also continue to relax our country's economy. This will facilitate the realization of our further reform plans in next 2 years. Precisely because our country's economic development strategy and economic structure are undergoing a transformation from the old patterns to the new ones, the influence of the old patterns will always hinder the development of the buyers' market and undermine the environment that is suitable to and needed by our reform. Therefore, we should keep our even clearer heads, consciously apply all the means provided us by both our new and old systems and conscientiously control the increase in demand caused by our investment and consumption in order to smoothly carry out our economic reform and construction, help abolish the old pattern and stimulate the growth of the new system. By so doing we will establish a mechanism of self-control and self-regulation under our new system to restrict our demand, gradually consolidate and develop the buyers' market and thus facilitate the final emergence and sound establishment of the new economic system and the new development strategy. If because we have some difficulties in establishing a buyers' market, we think that certainly, "it is impossible at present to make our supply a slightly exceed our demand" and thus become satisfied with "learning how to adapt ourselves to the situation with demand to some extent exceeding supply" (in fact, we have already been adapted to the situation with demand exceeding supply for several decades), then we will consciously or unconsciously give up our efforts to give rise to a buyers' market and relax our management and control over total demand. As a result, it will be very difficult for us to free ourselves from the predicament of excessive distribution of our national income and the sellers' market which has troubled us for a long time and we will be unable to create a fine economic environment for our reform. Then there will be delays and setbacks in our reform which we must do our utmost to avoid.

A review of the year 1979 reveals that at that time although the CPC Central Committee had already said that our country's economic system had to be reformed, as there was a serious dislocation in the proportion of our national economy, we had to give priority to economic readjustment and put forth the policy that reform had to be subordinate to facilitate the readjustment. Later, a situation of benign cycles emerged in our national economy and a fine economic environment initially emerged. Then the CPC Central Committee made the decision on economic structural reform in October 1984. As we successfully fulfilled our 6th 5-Year Plan, the social and economic conditions for an all-round reform had become mature. As a result, our reform became the major task and the 7th 5-Year Plan give priority to it. Therefore, we should pay even closer attention to maintaining the fine environment for our reform and for the development of our commodity economy. When construction and reform are in conflict with each other, we should make the arrangement of our production and construction meet the needs of the reform and never relax our control over demand in pursuance of a high economic growth rate. In particular, we should be calm when we see that there is a temporary drop in our growth rate because the excessive economic growth in the previous period have greatly increased the base figures of our economy. We should continue to adopt correct policies and measures, create a fine environment for our structural reform and for the readjustment of our economic structure, and thus promote the prosperous development of our socialist commodity economy.

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CSO: 4006/12

ECONOMIC DEVELOPMENT ZONES

BRIEFS

ECONOMIC DEVELOPMENT ZONE ESTABLISHED--Nanjing, 5 September (XINHUA)--China is building another economic and technological development zone in Nantong city, Jiangsu province to meet the needs of foreign investors, according to the city's administration. Occupying an area of 92.6 hectares, the zone is paving roads, improving utilities and building dormitories to house foreign businessmen and entrepreneurs. It will be built in three stages, with an investment of 495 million yuan (134 million U.S. dollars) during the first phase. "some investors from the U.S., Australia and the Philippines have already made contact with us," said an official, "and some joint-ventures will be operational by the end of the year." According to the official, the two factory buildings already completed are appropriate for food processing, textile, electronic, machine building and light industries. About 96 kilometers from Shanghai, the medium-sized city of Nantong is one of the 14 coastal cities with greater authority over foreign investment and trade. [Text] [Beijing XINHUA in English 1054 GMT 5 Sep 86 OW] /12913

DALIAN DEVELOPMENT ZONE--Dalian, 10 September (XINHUA)--Two major Sino-foreign joint ventures will open later this year in the economic and technological development zone in Dalian, Liaoning province. Designed for foreign investors, the 20 sq km development zone is 33 km from downtown Dalian, one of 14 coastal cities with greater authority over foreign trade and investment. Work began in October 1984 on the first phase of construction, and by the end of July, 243.73 million yuan (about 66 million U.S. dollars) had been spent to complete water supply and drainage systems, communications facilities, power transmission lines and transformer substations. A local official said here today that foreign firms have invested 17.47 million U.S. dollars in 13 joint ventures and cooperative businesses in the zone since 1984. The two newest joint ventures are with the China resources (holdings) company of Hong Kong, an oil refining firm, and a United States company dealing in ethanol. Apartment buildings with a floor space of about 27,000 sq meters, and a primary school have already been built. And work will start later this year on a railway feeder line, a trunk road to downtown Dalian and a waste water treatment plant, the official said. [Text] [Beijing XINHUA in English 0604 GMT 10 Sep 86 OW] /12913

CSO: 4020/005

ZHAO ZIYANG DISCUSSES PRICE, URBAN REFORM IN WUHAN SPEECH

Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC SYSTEMS REFORM] in Chinese No 1, 23 Jan 86 pp 4-9

[Speech by Zhao Ziyang, delivered 22 April 1985 in Wuhan: "Do a Good Job in Urban Reform; Fully Develop the Functions of Cities"]

[Text] I. Fully Develop the Functions of Cities

Cities are the centers of all economic activity and the nodes in the economic network linking country and town. Urban reform involves reform not only of the industrial management system but also of all socioeconomic life. Thus one cannot discuss cities only in terms of themselves, and the significance of urban reform extends far beyond cities themselves. These facts are determined by the positions, tasks and functions of cities. The reform of China's economic administrative system began in the countryside and is now centered around urban reform. Only by firmly grasping this new central link can we promote reform of the entire system, including the countryside. The key to the success or failure of the reform of our economic administrative system lies in urban reform, which, properly implemented, will advance rural reform as well.

What are the functions of cities? What are their tasks? What should urban work undertake? Our guiding ideology must provide explicit answers to these questions. In the past we had a narrow conception of the functions of cities. Whenever we thought about cities, we tended to conceive of them merely as industrial bases. This represents an incomplete understanding. Cities are a product of commercial development and possess many functions, serving not only as bases of industrial production but also as centers of trade, finance, communications and information, and some cities are even centers of science and education. Urban work and all economic activity should not be confined to serving each city itself but, even more importantly, must serve the entire economic area radiating about that city. Cities vary in size, as do their surrounding hinterland and the economic regions they serve. For example, Shanghai is an economic center for the entire nation and thus should serve all of China. Wuhan is located in the central plain and thus should serve central China first and then the southwest and the northwest. A primary task of urban reform is to fully develop the multiple functions of cities and to promote the development of a socialist, planned commercial economy.

We must improve our methods of evaluating urban work. The range of urban functions and the extent to which those functions are developed are determined largely by the size and attraction of each city's hinterland. Thus in evaluating the work of large (and some medium-sized) cities, we must not look purely to gross industrial and agricultural output value but should use gross national product, for by stressing only gross industrial and agricultural output value one might overlook other facets, which oversight would hamper the functional development of cities.

We must come to a new understanding concerning urban functions, the significance of the reform of the urban economic administrative system and what that reform should include. Urban reform involves a development of more urban functions and the transformation of cities, first of all large ones, into open, multifunctional, socialized and modernized centers of economic activity. We must firmly master this guiding ideology, open our minds and resolve more of the new problems that crop up in urban reform.

II. Streamline Administration, Decentralize Authority, Throw the Great Gate Wide Open and Invigorate Enterprises

What should we emphasize in current urban reform? In brief, three main things: Streamlining administration and decentralizing authority, throwing the great gate wide open and invigorating enterprises.

Invigorating enterprises comprises the starting and end points of and the central link in the reform of the economic administrative system. Each of our reform measures must be conceived first of all in terms of how it will invigorate enterprises and must produce real vitality in these entities. A socialist economy bearing Chinese characteristics first must have enterprises that are full of vitality. Many socialist countries have failed to resolve the problem of enterprise vitality, and we must solve this problem through reform.

Streamlining administration, decentralizing authority and throwing the great gate wide open are the prerequisites for invigorating enterprises. Only by streamlining administration can we prevent enterprises from being mere appendages to administrative agencies and enable enterprises truly to become independent accounting units, assume sole responsibility for profits and losses and manage themselves. And only by throwing the great gate wide open and by smashing fetters can we liberate enterprises from administrative barriers. Without these two reforms, enterprises will never be invigorated.

To develop a commercial economy we must throw the great gate wide open and open up each locale to other provinces, municipalities and regions. Only then can there be competition, progress and development. During Wuhan's reform, for example, the city promoted "the great opening of the three towns" and "letting enterprises face the real market and the trials of competition," dared to throw the great gate wide open, did not fear influxes of goods from other regions and was not afraid that some enterprises might be eliminated through competition. This was a courageous and imaginative decision that evidenced a vigorous, enterprising spirit, promoted commercial prosperity and progress in industry and other sectors, and enhanced enterprise vitality. Fear of failure in competition and adoption of closed-door policies will only protect the laggard and foster conservative and dependent mentalities. The more one closes oneself off, the more backward one becomes, and ultimately one will be eliminated.

Though we must open China up to the outside world, it is even more important that we open each area up to the rest of the country. Previously we put more stress on external opening and did not emphasize internal opening latter enough, nor did we promote the latter vigorously. The development of a commercial economy is inseparable from openness. The external open-door policy involves the development of commodity exchange on the international level, while the opening of each area up to the rest of the country involves the development of commodity exchange domestically. Both openings are essential prerequisites for the development of a commercial economy. Modern cities differ from "castle towns" of old in that the latter were closed while the former serve as centers of commodity exchange. This function dictates that cities cannot be closed and must be open. Advanced cities must open, and less advanced ones must equally be so. Nothing good will come from closing a locality off, for this policy, like the creation of administrative barriers, only results in an unnatural severing of economic ties among cities and regions so that no one place can develop its advantages and abandon its weaknesses, and this policy will never serve to transform the backward into the advanced. The persistence of administrative barriers has impeded urban development and prevented cities from truly functioning as economic centers. This is a problem that must conscientiously be resolved during reform.

Administrative streamlining, decentralization and the separation of administration and enterprise must be effected in a planned way, step by step. For all enterprises subordinate to central ministries and for most enterprises and industries under provincial departments, authority must be transferred downward to the cities in which those enterprises are located. The vertical and horizontal barriers erected by central ministries and provinces must be smashed first. But once enterprise managerial authority has been transferred to cities, we must prevent the latter from creating new horizontal barriers. Cities must streamline administration, decentralize authority, separate administration and enterprise, eliminate persistent confusion and overlapping of administration and enterprise and refrain from excessive interference in the internal affairs of enterprises. There is a distinction between the functions of cities and their governments. Following decentralization of enterprise managerial authority, there must be corresponding reforms in city economic departments, but the functions of these departments can be changed first before the agencies themselves are restructured. Figuratively speaking, this amounts to spreading "burning incense" before tearing down the "temple," and such an approach perhaps may prove more effective. When we change the functions of such departments, we must make more use of economic levers and economic laws in guiding or managing enterprises, reduce administrative interference in enterprise operations and serve enterprises better. When restructuring city departments, we must strengthen general economic departments and agencies providing economic supervision and cut down on organs specializing in administrative control.

We must now concentrate on resolving the problem of administrative corporations that are subordinate to bureaus. These corporations have bureaus on top of and enterprises below them. When managerial authority is transferred to enterprises, these corporations will not have much work left to do and invariably will try to keep a bit of that power in their own hands and thus thwart decentralization of authority. Therefore, some of these corporations should be abolished, and some should be transformed into service companies--all types of forms and methods should be employed. But all of the authority that has been ordered decentralized must be transferred to enterprises so that the latter truly can be invigorated and become more independent.

III. Open Many Types of Markets

Cities and markets are inseparable, for large cities constitute large markets, medium and small cities, medium and small markets. We must gradually establish many types of markets, including markets for consumer goods as well as for finances, technology, service-trade labor and the like. When these markets are properly coordinated, the power of economic levers will be demonstrated, and only then will the multiple functions of cities truly be realized.

In the past it was believed that the means of production are not commodities and cannot enter the market or circulate. Experience has shown, however, that this view runs counter to objective economic law and is harmful. Now we distinguish two types of means of production. The first remains subject to command planning and is allocated domestically at planned prices. The second consists of (1) goods that, while subject to planning, may be sold by producer units and (2) goods that are subject not to command planning but to the regulative role of the market. Following expansion of production and reform of the circulation administrative system, the proportion of the first type of means of production will gradually decline, while the latter type will slowly grow in importance. For the most part, price reform for the means of production will not be accomplished through centralized pricing but through a gradual increase in the share of these goods that is subject to the regulative role of the market. This is how the reform of agricultural and sideline industry prices was effected, and facts indicate that this approach, which is unique to China, has been successful. During the 1960s and 1970s most of China's grain, cotton and other agricultural and sideline industry goods were subject to centralized or assigned procurement, but later above-quota and negotiated-price procurement for these goods gradually grew in importance, finally developing into proportional pricing. This approach served to readjust prices but did not produce major economic shocks. Many of the means of production must also take this route. Shijiazhuang achieved good results when it adapted this approach. In that city, the means of production that were still subject to planning were not allocated directly to enterprises but were routed through the market and sold at market prices, and enterprises were reimbursed for the difference between these market prices and the planned prices for the enterprises' planned allotment of these goods.

The opening of financial markets must be placed on our agenda. Commodity production requires horizontal ties, but China's financial system is structured vertically, so it is hard to circulate our various types of funds. This situation poses a contradiction. To open financial markets we must first open the way for horizontal circulation. We must encourage investment interregionally, interdepartmentally and intersectorally, and we must use circulation to draw funds into areas where there is social need and where macroscopic results are better and thereby avoid blind and redundant construction projects.

We must aggressively develop markets for technology. The technology market is the intermediary between scientific research and production, links research departments and producer units, rapidly converts research results into productive forces and promotes both production and research. With such markets we can unleash the potential of research departments and producer enterprises. Many cities possess a certain amount of technological strength, so we should establish and properly run markets for technology in those cities that boast the proper qualifications.

The service-industry labor market differs from the general labor market. Under socialism, labor is not a commodity, yet the service-industry labor market does in fact exist, labor recruitment and contracting is growing in the service industry, and many tertiary industries provide service labor. We should set these markets up right, with proper leadership and in a step-by-step fashion.

To handle markets and circulation properly, we must also resolve transportation problems. Wuhan's program to invigorate the "two tongs" (circulation and transportation) is correct. For without transport, it is naturally hard to circulate goods. Our transportation is tight and inefficient, and the mix of conveyances is irrational. Cities are the hubs of transport and serve to interconnect water, land and air transport. In key cities, we must establish transport systems that are more comprehensive, coordinate different shipping systems, improve efficiency and reform, in accordance with differing conditions, local transport systems.

IV. Readjust the Sectoral Output Mix

In rural reform we have had to readjust the sectoral output mix, and we must also stress this issue in urban reform. Each city must determine its own mix based on local characteristics and must exploit local advantages. We must create economic networks centered on large cities and including surrounding market towns and complexes of small cities. Cities must avoid trying to be "small and complete" or "large and complete," set their own mix of industry and complement each other. Each city and each economic region must carefully select its own developmental direction and key projects.

Cities must make sure to distribute and employ funds rationally. In the past cities added projects and set up factories as soon as money was available. In the future, cities, especially large ones, should develop their functions better, employing limited funds first to build infrastructural facilities, develop tertiary industries, increase intellectual investment, improve the investment environment and provide more service to the surrounding economic region.

China's tertiary industry is very backward. Each city must set as important tasks the development of this industry and the strengthening of the relative importance of that industry in the local national economy. This industry includes trades serving both consumers and producers, and the results and efficiency of a nation's economy are closely related to the level of development of that nation's tertiary industry. China's tertiary industry accounts for only a small share of national output, has developed sluggishly and has adversely affected enterprise economic results. Under existing conditions, enterprise economic results and the people's quality of life will improve if we handle this industry, production and producer services properly. Tertiary industry must serve the entire economic region, not merely the city in which that industry is located. To develop this industry, the state, the collective and the individual must advance together, and price problems must gradually be resolved so that the industry can be invigorated and that units and individuals in this industry are given enthusiasm.

Housing construction should be made a major pillar in the development of China's economy, and we should vigorously carry out pilot tests of urban rent reform and of commercialization of housing. Once the basic problems of food and clothing are resolved, the people urgently need housing. A proper handling of housing reform will enable us to satisfy the people's urgent needs, to improve housing conditions, to soak up large amounts of currency through consumption expenditures, to make consumption expenditures more rational, to greatly promote the expansion of the building trades and to overcome unhealthy tendencies in housing allotment. The commercialization of housing affects the rent problem, so we must study and adopt specific measures that will not increase the people's burdens and yet will remain with the state's means.

V. Invigorate Enterprises

Many small, collective, town and township enterprises have been invigorated, but their large and medium state-owned counterparts, which bear heavy command-planning burdens, have not shown enough vitality. Key large and medium enterprises have encountered a number of problems in their development, yet they own much fixed capital, are strong technologically, command a large share of the raw materials allocated through planning and boast certain advantages. So long as these entities conscientiously carry out reform and improve their management, they will surely eliminate poor performance and great waste and exploit their tremendous potential more quickly.

Large enterprises must strengthen internal reform. Some large enterprises are not devoting themselves to internal reform but instead demand tax reductions and profit grants from their superiors; this mentality is incorrect. Administrative streamlining, decentralization of authority, throwing the great gate wide open and appropriate reduction of the adjustment taxes and planned targets for overburdened key enterprises represent external preconditions for enterprise invigoration. Nevertheless, the key to tapping the tremendous potential of large enterprises lies in looking inward and in successfully effecting internal reform. In addition to reducing the size of accounting units and to effecting economic responsibility systems within enterprises, to vigorously implementing technological transformation and improvement and to initiating multifunctional operations and comprehensive utilization, we must also transform enterprises into open, entrepreneurial entities, the key to which lies in reforming enterprise personnel systems and the recruitment of outstanding skilled personnel to positions of leadership. Enterprises can adopt observation and testing procedures, democratic elections, open application for positions and open recruitment to fill cadre positions. Once skilled personnel are recruited they should be entrusted with important tasks. These recruitment procedures often produce immediate and marked changes in factories.

We must place stress on mobilizing the initiative of both enterprise employees and managers and strengthen everyone's sense of responsibility. These are issues that many enterprises have not yet properly resolved. Thus while replacing the system of remitting profits to superior agencies with taxation and readjusting the relationships between enterprise and state, we should also implement responsibility systems for factory heads and managers. That is to say, we must strictly enforce the contracts signed between enterprises and their superior departments as well as terms in those contracts relating to the responsibilities, tasks and authority of and the rewards and punishments for factory heads and managers. If we can increase factory heads' and managers' sense of responsibility and mobilize their initiative, we will be able to run enterprises better.

We must strengthen horizontal ties between enterprises, widely initiate various types of cooperation and increase cooperation between different regions, between different trades, between enterprises having different systems of ownership and between city and countryside. The approach involving specialized cooperation among key enterprises and production of name-brand, quality goods possesses much vitality and should be popularized. Some cities have argued that, in principle, technological transformation should not involve new construction. This is a good idea that facilitates the spread of goods to enterprises in small cities, towns and townships and reduces overcrowding in large cities. When arranging various types of economic cooperation, cities must undertake more coordinating and organizational work so as to deploy social productive forces better.

VI. Reform the Price System Properly

We must have a sufficient understanding of the importance of proper reform of the price system. Prices are powerful economic levers, and the opening up, the invigoration and the reordering of economic relations and the development of the functions of cities are inseparable from price reform and the full operation of the law of value. The Decisions of the 3d Plenum of the 12th CCP Central Committee pointed out that price reform will be a key determinant of the success or failure of the reform of the entire economic administrative system. In the reform of the economic administrative system of cities and in other urban economic work, we must must "lead the ox by the nose" and take charge of and properly implement price reform.

This price reform is taking place amidst plentiful supply of goods and materials, involves a structural readjustment of prices and differs fundamentally from across-the-board price rises spurred by inflation. Structural price readjustment entails increasing and lowering prices so as to rationalize price parities among goods. The general price level will rise a bit for a while after prices are readjusted and decontrolled, but for the vast majority of consumers, living standards will not decline, the quality of life will continue to improve, life will be more convenient and real economic benefit will result because of the rise in output and wages and especially because of the increase in the number of household members employed, as well as continued state subsidies for some daily necessities. The experience of Wuhan and a number of other cities proves this point. Wuhan's decontrol of prices for vegetables, meat, fish and other nonstaples produced generally good results. Restaurant managers told me that before decontrol only 60 to 70 percent of all the vegetables they bought were usable, and the other 30 to 40 percent had to be pitched out. Now, however, 90 percent of the vegetables bought on free markets and 80 to 90 percent of all the vegetables procured from state markets are edible, so the usable portion of these goods has increased. In the past vegetables were old, coarse and wilted, but now they are tender, fine and fresh. In the past we had to eat frozen pork, but now our meat is fresh. In the past we had to accept dead fish but now we get live ones. Moreover, variety has improved, marketing seasons have been extended, business hours lengthened and service improved so that the masses can buy whatever they want, choose what they like and find things convenient, and the unhealthy practice of procuring goods through the back door has been greatly reduced. Our price reform will fully be able both to mobilize producer initiative and to safeguard consumer interests. People still remember the galloping inflation of the old society, when the "gold yuan notes" were reduced to wastepaper, and this lingering fear makes people nervous over changes in prices. We have long been accustomed to frozen prices and have not recognized the positive effect of rational price adjustment. In fact, long-term price freezes beget scarcity and even produce situations in which there may be prices for but no supply of goods. Such prices might look cheap, but one cannot find the goods one wants, or if one finds such goods, one can only get ones that are poor in quality. The consumer derives no real benefit from such a situation.

The basic reason why the living standards of the people of China are so low is that our production is backward. Irrational prices that do not reflect true value or the relationship between supply and demand inevitably prevent expansion of production, impede readjustment of sectoral and product mixes and make it very difficult to raise the living standards of the people. If we fail to reform the irrational price system, we will find it impossible to straighten out economic relationships and to invigorate the economy. Naturally, we must also realize that prices for some goods will increase for a while once decontrol is effected, and this will increase costs to consumers. But prices will stabilize once supply increases. The rationalization of the price system will certainly bring about increases in social production, an abundance of products, better quality of service and improvements in the people's living standards and quality of life. Agricultural price reform provides an inspiring and enlightening example. For a long time, China's grain and cotton were underpriced, which state of affairs seriously affected peasant incentive for producing these goods. But price readjustment and other measures engendered a new state of affairs in which output greatly increased, enabling China to achieve self-sufficiency in and to export a surplus of cotton, to rapidly raise grain output from 600 to 800-plus billion jin, and to markedly improve peasant living standards. Thus price reform is urgently needed in order to increase output and improve living standards and is in the basic interest of the state and the people.

Price reform affects the entire economic picture, so we must both straighten out economic relationships so that they conform to the law of value and avoid producing large shocks. This is a principle that we must grasp. In view of what society can bear and of the need to maintain overall balance, our reform must link decontrol and readjustment and advance in small steps. To be on the safe side, the pace of the reform must kept steady and we must work carefully. We must carry out the reform in a planned and step-by-step fashion while simultaneously strengthening macroeconomic control. We must by all means prevent indiscriminate price raising, resolutely change what should be changed, strictly control what must be controlled and strictly prohibit unapproved price increases. We must properly organize mass surveillance and inspection work, and state-run commerce must be made subject to the regulative role of the market and hold down prices. If these things are properly handled, our reform will achieve the expected results.

For price reform, we must also properly conduct propaganda and education work. This work must focus on the reform, be properly targeted and be persuasive so as to change old ideas and habits. Each city and unit must conduct this work by using vivid and specific examples so as to alleviate the masses' fears and misgivings. These areas form an important part of current ideological work. Many ideological problems have cropped up and will continue to occur during the reform, so we must link ideological, political and propaganda work with the actual needs of the reform.

In the past few years, minor commodities have been decontrolled, consumer goods for which supply has improved have been progressively decontrolled, the market is brisk, product designs and variety have increased, many things that were previously unavailable are now obtainable and price rises have not been inordinate. We took a pretty big step forward when we decontrolled agricultural, sideline industry and fresh and live goods in 1985 [sic? As published]. We have also instituted two types of prices, planned and market, for the means of production, and the share of such goods subject to market prices is gradually increasing. In the future, where conditions permit, we should gradually decontrol and readjust prices in tertiary industries and resolve the problems associated with rent for and commercialization of rousing. When these things are accomplished, we will have taken the first steps in freeing ourselves from the old price system and in getting on a new track. We must follow this path and for the next 5 years or so steadily readjust, improve and adopt progressively new measures and advance from quantitative accumulation to qualitative improvement. In this fashion we will able basically to complete price reform, this key and most difficult work, without producing major economic shocks. By that time, 5 years from now, China's cities and economic life will have a very different look.

The Decisions passed by 3d Plenum of the 12th CCP Central Committee in October 1984 set forth explicit directions for urban reform. Now the experiences of Wuhan and other cities have shown us the road to this reform even more clearly. Thus we should be very confident about this reform.

12431
CSO: 4006/979

REFORM OF ENTERPRISE STRUCTURE CENTRAL TO URBAN REFORM

Beijing JINGJI RIBAO in Chinese 12 Jul 86 p 3

[Article by Hua Sheng [5478 3932], He Jiacheng [0149 1367 2052], Zhang Xuejun [1728 1331 6511], Luo Xiaopeng [5012 1420 2590] and Bian Yongzhuang [6708 0510 1104]: "The Basic Reform of the Enterprise Structure Constitutes the Core of Urban Reform"]

[Text] The Seventh 5-Year Plan is a crucial period for the overall reform of our economic system. The reform of the urban economy will be carried out around the independent operations of the enterprises which are to be responsible for their profits and losses, on the one hand, and the generally reasonable external economic conditions, on the other. The purposes of reforming the urban economy is in the final analysis to enable the enterprises to become truly independent business entities. Thus, the questions of whether the business management system of our existing enterprises is in need of basic reforms and, if so, how such reforms should be brought about have generated considerable interest in the area of urban reform.

Existing Enterprise System Calls for Basic Reforms

Urban economic reforms had their beginnings in the enlargement of the autonomous powers of the enterprises. After several years of experience, the powers of the enterprises should have been considerably enlarged and their profit motive notably heightened compared to the situation obtaining under the traditional pattern. From the point of view of the enterprises, however, the various provisions for expanding their powers have yet to be truly implemented, so that the enterprises, hobbled by administrative and social restrictions, have little power to speak of. The enterprises frequently have their hands tied in that they are unable to do what they want to do and yet cannot cease operations. Some entrepreneurs who have the courage to bring about reforms often find themselves in a predicament or are "dismissed" for no reason. At the same time, changes in the relative amounts of benefits paid to various people during the process of economic reform have unavoidably incurred some errors and frictions. Staff workers in the enterprises expect more and more benefits while becoming less and less satisfied with the benefits already given to them, so that more and more people in society have taken the attitude of bystanders while reforms are being introduced. Society has come to take the view that the enterprises, due to the lack of something that represents their own long-term interests, have not been above resorting to questionable practices in their operations. This tendency is reflected in the feeble reaction by the enterprises to macroeconomic readjustments, the lack of any real effort to exploit their potential and to update and improve the quality of their products. Instead, the enterprises have resorted to the common practice of raising prices as a way to evade their responsibility and of vying with one another in the distribution of their incomes, so that the phenomenon of enterprises holding themselves responsible for their profits but not their losses has made its appearnace. The practice of giving powers to the enterprises and of taking them away in making macroeconomic readjustments in the process of reform is a reflection of the difficulty of bringing about reforms without altering the existing structure of the enterprises. According to the experience of certain East European countries which had carried out economic reforms at an earlier date, this situation is not likely to disappear with the improvement of the environment for macroeconomic operations. On the contrary, with the increase in the transparency of the market and the perfection of the mechanism for the circulation of labor, such problems as the weakening of control over the budgets of the enterprises and their lack of vitality and competitiveness will further make themselves felt. The absence of any correllation between the abundant financial and human resources owned by state-run and large collective enterprises and their competitiveness goes to show that the basic reform of the existing structure of the enterprises, which has failed to motivate fully the positive attitude of the enterprises and their staff workers and to make indirect instead of direct readjustments in line with the macroeconomy, is unavoidable.

It goes without saying that the reform of the structure of the enterprises should have as its purpose the improvement of the quality of the enterprises. The basic shortcomings of the existing structure of the enterprises include: 1) It holds down the emergence of entrepreneurs, ties the hands of entrepreneurs in leadership positions, and makes it impossible for them to bring their talent into play. 2) The enterprises themselves do not have the ability to bring about the proliferation of their funds, so that each and every enterprise has to scramble for state funds to step up the pace and increase the value of its production, thus contributing to the separation of administrative powers in the allocation of funds and the lowering of accumulative effectiveness. 3) Since the wages of all staff workers are determined by the state, there is no regular system for evaluating their performance and for their promotion to encourage them to upgrade their technical operations on a long-term basis and for making use of the payment of different amounts of bonuses as an incentive to staff workers on a short-term basis. In short, the absence or the inadequacy of basic reforms of the microeconomic cell of the enterprise, which constitutes the foundation of our entire economic system, is the basic reason for the fact that urban reforms have lagged behind the generally successful rural reforms.

From a more macroeconomic point of view, the big success of rural reforms has laid a foundation for and posed a sharp challenge to urban reforms. Due to the improper organization structure within the enterprises in the cities and the vertical and horizontal restrictions imposed from outside, the urban enterprises, in competing in the domestic and foreign markets, have shown too many flaws, been made to carry too heavy a load and shown a lack of capacity to compete, resulting in the improper movement of personnel, funds, and natural resources and a disparity in the amount of incomes (of an irregular nature). The inequitable distribution of opportunities and incomes has created strong reactions and repercussions in society. The shock wave which the rapid and precipitous development of the commodity economy in the rural areas has generated in the economic life in the cities indicates that for the rural and urban economic systems to operate in a coordinated manner, it is not sufficient to count on economic development in the rural areas alone and that the only way for the rural and urban economic systems to operate in a coordinated manner is to reform the system of the enterprises in the cities on a large scale and without any waste of time.

Major Features of the Reform of the Enterprise System

The major problem in the enterprise system is that of leadership. When those in leadership positions are appointed by a higher administrative level, the enterprises are basically predestined to be a part of a semiadministrative system because, under such circumstances, they must keep at least one eye on the higher authorities instead of keeping both eyes on the market. The reform of the enterprise system must at the same time be brought about around their assets, which represent the entire basis for the enterprises to carry on their own operations, and the relationship between the enterprises and the state is focused on the responsibilities, rights and profits of the enterprises in the manipulation of state assets. Looking at the situation from our experience in bringing about rural reforms and in view of the extremely unbalanced conditions existing in the nation, it is necessary, in order to bring about profound reforms on a national scale, to begin by bringing about reforms in an ethical manner and based on the specific relationship between assets and interests, to unleash the tremendous production potential stifled by the practice of eating out of the same large pot and the situation characterized by the shirking of responsibilities so that clearly visible economic effectiveness on a large scale may be attained in the early stages of the reforms and that widespread support may be forthcoming from the various levels in society. Thus, to deal with the assets of the enterprises ethically and to establish a link between the profits and losses of the enterprises and the interests of the staff workers of the enterprises, especially those in management positions, may possibly be the starting point for the basic reform of the enterprise system within the framework of the public ownership system.

From what has actually taken place in the last few years, it may be seen that those enterprises that are truly able to free themselves from administrative intervention, to operate on their own initiative and that are economically effective are those that engage in contracting operations after the payment of taxes, especially individual contracting, renting, and leasing operations. Experience gained in various localities indicates that it is such operations that allow the enterprises to exercise their autonomous powers and makes it possible to implement the system marked by the assumption of responsibilities by the factory director. Under similar external economic conditions, these operations are twice or several times more effective than other similar enterprises. The major flaws of this type of operations are: 1. The contractors are usually made responsible for making profits but not for losses and, since their powers are not commensurate with their responsibilities, society finds it difficult to accept the high incomes paid to individuals. 2. The various leasing and contracting operations assess the rewards and penalities given out on the profits realized for any particular year so that there is no guarantee for the long-term development of the enterprises. 3. These operations fail to touch upon and to deal with the deployment of their assets with efficiency. The reform of the enterprise system should be focused on making use of all the advantages and avoiding all the shortcomings of such operations and the responsibility system. Consideration should be given to the adoption of the responsibility system in the management of assets.

The crux of the responsibility system in the management of assets is the establishment of a link between the reform of the leadership system of the enterprises and the assessment of the management of the assets of the enterprises by society. The way to go about it is to make use of the assets currently owned by the enterprises (including invisible assets and the existing internal and external factors relating to the enterprises), to use the method of bidding and submitting tenders to invite applications for leadership positions in the enterprises, and to make applicants offer price quotations on the anticipated production capability of the nonmonetary assets of the enterprises (quotation of profits for the various years and calculation of the use of the discount depreciation rate for profits and assets to arrive at the value of the assets and the addition or deduction of the monetary assets and debts of the enterprises) and to select factory directors and managers on the basis of the tenders they submitted. The concerned departments are to be responsible for the examination of their credentials and the conclusion of contracts with the applicants stating the term of employment and the notary departments are to conclude agreements with the applicants setting forth the limits of their authority in making changes in the assets, personnel, and the amount of production during their tenure. As a matter of principle, applicants should put up a certain amount of assets or sum of money as security. Any outstanding amount short of what is required may be taken out of the applicants' wages every month. Leadership teams in the enterprises organized by the applicants are to have the power to enforce contract terms for staff workers in the various sections and to adopt the proper form of distribution. If profits should fall short of the original amount of the bid made by the applicants for the year during their term of office, a certain amount may temporarily be withheld from the wages of the applicants for the year. Contracts setting forth their term of office may be terminated when there is a large discrepancy between the amount of their bid and the profits made by the enterprises. If the amount of their bid exceeds the amount of profits made by the enterprises, part of the bonuses may be paid to the applicants in advance.

At the end of the applicants' term of office, the concerned departments are to invite tenders again for the assets of the enterprises and, on the basis of the quotation of the assets made by the successful bidders, to weigh the difference represented by the quotation of the assets at the close of the previous term of office of the applicants. If there should be an increase in the value of the assets, a certain percentage of the bonuses is to be paid according to the terms previously agreed upon. Part of the bonuses is to be shared by the staff workers and part is to be paid to the applicants during the previous term and to the team of workers appointed by the applicants. In the event of a decrease in the value of the assets, a percentage is likewise to be taken from the security posted by the applicants (during the previous term) and their team of workers. As to the incentive welfare fund for staff workers during any particular year, the juridical persons of the enterprises may appoint representatives to participate in the bidding to encourage the lateral movement and proper concentration of assets (funds).

The crux of the successful evaluation of assets lies in whether or not there is adequate competition. Considering the situation obtaining in the experimental sites in various localities, there is no cause for entertaining such misgivings. Each of the enterprises in the automobile companies in Shenyang had an average of over 20 applicants competing for leadership positions in the city. Although only one position for the directorship of the Environmental Protection Bureau for the term of 3 years was advertised by Zhejiang Province, the number of people who applied on their own or were recommended by other people came to 1,800 persons/times. That goes to show that there are thousands of gifted people who are eager to serve their nation with loyalty. The only problem is that too many people have been held back by our traditional system for the making of appointments by cadres who merely look up and not down in their scouting trips to recruit for personnel. Nevertheless, at the early stage of the enforcement of the responsibility system for capital fund operations on a trial basis, the posting of securities may be relaxed to a proper extent in order to ensure an adequate amount of competition. At the same time, various measures should be adopted to offer incentives to entrepreneurs, such as the setting up of personal files for entrepreneurs who have contributed to the increase of the value of assets, the promulgation of regulations for entrepreneurs, the grading of entrepreneurs, and the giving of high awards and decorations of merit to entrepreneurs on the national level.

The reform of the responsibility system in the operation of assets is not confined to the industrial enterprises. Compatible with the contracts for the terms of office according to the plan, it can also be extended from commercial, (vegetables), utilities, and transportation industries to such tertiary industries as the publication of books and magazines. There is need to break down step by step the existing responsible departments of the enterprises. One major requirement is the evolution of the departments into output-related administrative units. In the future, state funds should, on the principle of the payment of interest on the net book value, be allocated only to the departments dealing with assets and such departments should, on the basis of the actual assessment of the assets of the enterprises, collect interest from the enterprises at the same rate.

The reform of the output-related responsibility system does sway with the malady created by the inequality of opportunities brought about by various complicated factors and, in the area of microeconomic activities, creates equality of opportunities on the most extensive scale for the largest number of cadres and staff workers and serves to establish the system of socialist free enterprise. All this will enable us to reform the overstaffed administrative units and to engage in some hard thinking on overall social reforms, including those of the political system.

The reform of the assets of the enterprises according to the concept of society is also of profound international significance. Nonmonetary assets differ from ordinary commodities in that their value is not affected by personal preferences, but is determined solely by their anticipated products (profits). The Soviet method for the payment of funds shifts the consequences of state investment policy entirely to the enterprises (operation channels, trade marks, commercial prestige, etc.). This improved method for the management of the production economy will inevitably run into snags in actual practice. The value of the assets of enterprises in Western capitalist countries is determined by the stock market. Since a considerable majority of stockholders, interested only in the pursuit of profits, do not understand and have no desire to understand what is actually being done with the assets of the enterprises, any rumor would send stock prices sharply up or down (the program control of modern computers has the further effect of making stormy waters even stormier). It is for this reason that the West has not generally come to entertain doubts as to how far the stock market can reflect the changes in the value of the assets of the enterprises. Thus, the socialist countries, in bringing about economic reforms, cannot and should not merely adopt the model of the stock markets in the West as their own. The determination of the value of assets by experts on the basis of estimates made by major yardstick for evaluating the responsible personnel and staff workers in the departments dealing with assets so as to exert pressure on and to promote the inherent motive force of the departments dealing with assets and to encourage the movement, the reorganization, the merging, and the centralization of assets which serve to increase the rate of efficiency in the utilization of funds.

Following the establishment of the output-related responsibility system for the management of assets, all the assets of the newly established projects should, as a matter of principle, be made available to the entrepreneurs following public bidding and evaluation. Furthermore, awards and penalities should be given to the investment policymakers and the construction planning units by making a comparison between the actual value of the assets achieved and that assessed by the successful bidders.

Aside from the adoption of other economic and legal means, the state may, at the present juncture, regulate the enterprises by resorting to the signing of contracts setting the terms of office and the limits of authority to be given to the enterprises on the basis of the overall interests of the parties concerned. Should immutable changes brought on by the readjustment of the policy of the state occur in the external environment of the enterprises, both parties to the contract may propose the revision of its provisions. Should they fail to reach agreement, new bids may be solicited. The state may, by making changes in the exchange rate for profitmaking assets and in the discount rate, also readjust the assets and money accumulated by the enterprises, those accumulated by the state, and the direction of investment. Due to the inherent matching mechanism of the enterprises, the problems arising from their long-term and short-term operations and the so-called problems involving the replenishment of circulating funds will automatically be solved.

The basic reform of adopting the enterprise system will bring together entrepreneurs, inventors, assets (funds), and resources which are in such short supply with the following anticipated results: During the first stage within the next 3 to 4 years, the personification of the relationship between assets and profits, similar to the situation resulting from rural reforms, will alter the structure of the microeconomic cell and rapidly bring about a significant degree of economic effectiveness. During the second stage, the increase in the rate of utilization of the existing assets and the tremendous heightening of the effectiveness of reinvestment will bring about an upsurge in the circulation of assets and greater effectiveness in the new realignment of the key elements of production in the deployment of followup production. The emergence of the situation described above will enliven our entire economic reform and economic construction.

The Significance of the Basic Reform of the Enterprise System

The direct purpose of the reform of the enterprise system is, through the personification of the relationship of assets, to strengthen the rigidity of the budgets of the enterprises under the public ownership system and the competitiveness of the enterprises and to enable the enterprises to add to their power to do away with the various administrative interventions and such prevalent self-serving practices in society as the apportionment of profits, the wastage of properties, and the appropriation of public property so as to establish a foundation for propping up the public ownership and commodity economic systems characterized by the accommodation of the various economic components. Facts have repeatedly shown that once the matter of profits and losses is made clear and individuals are made to assume specific responsibilities, other people and enterprises would hesitate to intervene in their operations. Many perplexing problems arising from the need to consider people's feelings and to preserve equilibrium under the existing system can promptly be solved. Experience gained in the reform of the enterprises indicates that the reform of the output-related responsibility system will make it possible to go a step further in establishing a link among personal interests, the proliferation of assets, and the long-term development of the enterprises and that the enterprises will be able to perform the function of organizing funds and labor to give an impetus to their circulation. It is with the perfection of the socialist market system that it is possible to deal properly with the problem of upgrading the efficiency of the enterprises under the state ownership system.

The abolishment of the administrative appointment of personnel in leadership positions in the enterprises is the most substantive step which can be taken to shake off adminsitrative intervention. This far-reaching reform, which does away completely with the practice of classifying the types of enterprises according to their administrative level and the appointment of those in leadership positions in the enterprises by administrative units according to the traditional system, not only serves to pave the way for the emergence of large numbers of talented entrepreneurs for the enterprises, to help innumerable inventors to realize their dreams, to open up opportunities for socialist enterprises to establish and to engage in scientific research, to enable the enterprises to surmount their difficulties, but also to bring about the emergence of new potential in society.

Basic reforms of the enterprise system represent a step of historic significance in the promotion of socialist democracy. At the present stage of development in our nation, the process of democratization, unless economic development goes hand in hand with the upgrading of efficiency, would become a tree without roots and be unable to survive. The reform of the output-related responsibility system does away with the malady created by the inequality of opportunities brought about by various complicated factors and, in the area of microeconomic activities, creates equality of opportunities on the most extensive scale for the largest number of cadres and staff workers and serves to establish the system of socialist free enterprise. All this will enable us to reform the overstaffed administrative units and to engage in some hard thinking on overall social reforms, including those of the political system.

The reform of the assets of the enterprises according to the concept of society is also of profound international significance. Nonmonetary assets differ from ordinary commodities in that their value is not affected by personal preferences, but is determined solely by their anticipated products (profits). The Soviet method for the payment of funds shifts the consequences of state investment policy entirely to the enterprises (operation channels, trade marks, commercial prestige, etc.). This improved method for the management of the production economy will inevitably run into snags in actual practice. The value of the assets of enterprises in Western capitalist countries is determined by the stock market. Since a considerable majority of stockholders, interested only in the pursuit of profits, do not understand and have no desire to understand what is actually being done with the assets of the enterprises, any rumor would send stock prices sharply up or down (the program control of modern computers has the further effect of making stormy waters even stormier). It is for this reason that the West has now generally come to entertain doubts as to how far the stock market can reflect the changes in the value of the assets of the enterprises. Thus, the socialist countries, in bringing about economic reforms, cannot and should not merely adopt the model of the stock markets in the West as their own. The determination of the value of assets by experts on the basis of estimates made by society will probably serve as a bridge for linking up the public ownership system and the commodity economy.

Far from being contradictory, the reform of the enterprise system and the exercise of control over the macroeconomic environment are complementary in that they help to propel each other forward. The exercise of control over the outside environment has the effect of reducing resistance to the reform of the enterprises, while the enterprises can offer a material basis for reforms by taking a longer stride in dealing properly with the economic parameter.

It should be acknowledged that the complexity and discrepancies in our economic environment have added to the difficulty of establishing a new system for the enterprises. For this reason, the new system should first be applied to small and medium-sized enterprises which are not as much affected by planned and unified prices. So long as the new system is brimming with vitality and truly meets the needs of the nation, it will grow and prosper on Chinese soil and bring about a historic transition of the old system to the new.

9621/12795
CSO: 4006/1219

JOURNAL ON EASING SHORTAGE OF CURRENT CAPITAL IN PRC

HK240644 Beijing JINGJI GUANLI in Chinese No 8, 5 Aug 86 pp 4-6, 42

[Article by Yu Yan [0060 6056]: "The Cause of Current Capital Shortage and Ways to Alleviate the Situation"--edited by Lin Daojun [2641 6670 0689]]

[Text] I. Major Causes for Present Current Capital Shortage

In 1985, the gross industrial output value of the whole nation rose by 18 percent over the year before, the quota of industrial current capital employed rose by 19 percent, the balance of bank lending for current capital rose by 18.4 percent (of which that for industrial current capital rose by 24 percent) and the rate of increase in the current capital of our enterprises and that of the bank loans for current capital exceeded the growth rate of industrial output value. Looking at the situation in the past few years, in the last year alone, the rate of increase in quoted current capital exceeded the growth rate of industrial output value.

In theory, the quick increase in the quota of current capital employed by our enterprises and the increase of bank loans for enterprises as their current capital means that the enterprises ought to have enough funds and be better off. But the real situation is that most enterprises have indicated that they have a shortage of funds and lack working capital. According to statistics from the China Industrial and Commercial Bank, by the end of last year, the amount of loans that the bank was assigned as agent to collect and that were due but not repaid rose over 300 percent over that in the previous year. The amount of loans that were due and not repaid and that the bank was not assigned as agent to collect was also fairly large according to estimates. Owing to the shortage of current capital, many enterprises could not purchase their raw materials, sell their products, promptly put into operation the projects on which construction had been completed, pay tax and deliver profits in time, or even pay wages. This seriously hindered the normal progress of their production.

The current capital of our enterprises rose year by year, but there was an increasingly serious shortage of current capital. Why?

1. The readjustment of the prices of some of the means of production has given rise to a decrease in the value of their current capital, while the

increase in the value of stock was transformed into "profits." This has actually reduced the relative amounts of current capital employed by our enterprises.

Since 1985 when the state loosened its control over the prices of the materials and goods not allocated by state plans and implemented the "dual price system" characterized by goods sold at one price when governed by the plans and at another when not governed by them, it has to some extent given impetus to the production of means of production and increased the supply of goods in short supply. But as we lacked specific measures to manage our market and control prices, the negotiated prices of materials and goods have risen sharply. For example, the average price of rolled steel was 1,650 yuan a metric ton and 2,300 yuan a metric ton at the highest, 100-200 percent higher than the allocated price. The mandatory plans only provided our enterprises 80 percent of the raw and processed materials, but only 80 percent of the orders received by enterprises were covered by the plans. In addition, only 80 percent of these materials and goods were delivered to them according to the variety and specifications needed by the contracts. As a result of this reduction level by level, our enterprises can in fact only get 50 percent of their materials at low prices and have to purchase the other half at negotiated prices. Thus, they could not purchase the same amount of raw and processed materials as they did in the past with the same amount of current capital.

In addition, in the past few years, the state has readjusted the prices of some materials and goods. This has resulted in a corresponding rise in the book value of their stock which has been regarded as an increase in their current capital. But in fact, the increase in the value of stock has been transformed into "profits" and then delivered to the state finance as revenue. The state then used this portion of overrated income to carry out expanded reproduction and thus caused a reduction of the funds used to maintain the original production scale. The new production capacity acquired by the overrated revenue needs bank loans to provide current capital and this aggravated the shortage of funds in our enterprises.

2. The excessive scale of investment in fixed assets has made it impossible to guarantee the sources of current capital and given rise to a dislocation in the proportional relation between the increase in fixed assets and that in current capital.

In 1985, the urban and rural areas throughout our country completed a total of 247.5 billion yuan of investment in fixed assets, an increase of 64.2 billion yuan or 35 percent over the year before. This was the highest figure of investment for many years. The number of large and medium-sized projects where construction was completed and which were put into operation, was 97 and that of the projects that were parts of large and medium-sized projects which were completed and put into operation was 134, both being the highest figures in the past few years. If the fixed assets of all the enterprises owned by the whole people in our country in 1983 were valued at cost value of 683.32 billion yuan and the quota of current capital was 374.94 billion yuan, then the ratio of fixed assets to current capital was 1:0.55. According to this ratio, the investment in fixed assets of 247.5 billion yuan that we completed last year throughout our country would need an increase of 136,125 million yuan of loans as current capital. But in fact, our banks provided only a little over half of the amount of loans needed. The ratio of newly-acquired fixed assets to the amount of the increase in current capital was only 1:0.28.

The ratio of newly-acquired fixed assets to the increase in current capital is rising, but there is no guarantee for our source of current capital. The central and local governments and enterprises all have invested their accumulated funds in fixed assets and rely on bank loans to satisfy their demand for more current capital which has resulted from the increase in production capacity and the price rises. In order to ensure sources of current capital, our banks have drawn up the rule that an industrial production enterprise that itself provides less than 70 percent of the funds it employs and a materials and goods supply and marketing cooperative that provides less than 50 percent of the funds it uses, must transfer 10-20 percent of the production development funds to its current capital every year. They also stipulate that a newly built or expanded enterprise must first provide 30 percent of the current capital it wants before it can get loans from our banks. However, in practice, some new projects and extension projects have only been provided with funds to be invested in their fixed assets, but have not been provided with corresponding amount of current capital. When the construction of these projects is completed, our banks refuse to make any loans to them for current capital because they have failed to provide their own share of current capital. As a rest, some new projects even lack the money to carry out their trial operation and the extension projects contend for current capital with the existing capacity of the enterprises. This has caused our enterprises to go further into the red for their current capital.

Our enterprises have also failed to fulfill the task of providing additional current capital for themselves. Since the implementation of the second step of the reform to substitute tax for profit delivery, the industrial enterprises throughout our country have only been allowed to retain about 16 percent of their realized profits on average. After paying for various kinds of apportioned expenses such as their contribution to energy and communication funds and conducting the transfer to bonus and collective welfare funds, our enterprises can only allocate 20-odd percent of retained profits to their production development, new product development, and reserve funds. In formulating plans to spend this limited amount of production development funds, some enterprises first make arrangement for the expansion of their production scale and then consider the demand for current capital. In drawing up the budget for the income and expenditure related to their special funds, they first make arrangement for their technological transformation projects and then consider the demand for additional current capital and even use their current capital for other purposes. When our banks time and again asked our enterprises to provide more of their own current capital, the enterprises delayed time and again on the excuse that they had already allocated their production development funds for other projects. Even if the enterprises did provide some additional current capital themselves, the amount only accounted for a very small percentage of their retained profits.

3. The stock of materials and goods has increased and some of our products are unmarketable. As a result, the amount of funds tied up in stock of finished goods has risen sharply.

At the end of 1985, the amount of funds tied up in stock of finished products in our industrial enterprises owned by the whole people rose by 30 percent over the same period last year, which was much higher than the 18 percent increase in industrial output value. The proportion of the stock of finished products in our total current capital also rose sharply to 21.2 percent.

As to our actual stock, the increase of funds tied up in our stock of finished products means that a fairly large amount of products are stockpiled in our storerooms. Some of these products are necessary to increase our stock as our scale of production, purchases and sales expands, but a fairly large portion of the increase in stock is abnormal. The abnormal increase in stock can be attributed to:

1) Blind pursuit of high output value and profits which has led to blind production of some unmarketable products of poor quality, high prices, and wrong variety;

2) Blind imports from abroad which undermined our domestic market and gave rise to stockpiling of goods;

3) Shortage of transport facilities which caused delays in transporting and marketing of some products;

4) The tightening of credit which has restricted our purchasing power and given rise to stockpiling large numbers of automobiles and tractors;

5) The psychological factor which has caused some enterprises to conduct blind purchases and store excessive quantities of goods, thus tying up their current capital.

4. As socialist commodity market develops and as market system improves, the enterprises' demand for funds increases.

In the final analysis, the economic activities of an enterprise are movements of funds. Since we began to implement the policy of planned commodity economy, the state has reduced the number of categories and the quantities of the products that it allocates in a centralized manner, developed the exchange of commodities between different areas and departments, expanded the market of consumer goods and means of production and systematically established our capital and technology market. As our commodity economy develops, our enterprises' demand for current capital increases.

Since we expanded the decisionmaking power of our enterprises over their production and operation, there have been changes in our channels of purchases and sales. Many commodities that were purchased entirely by our commercial departments, are now purchased by selection or sold by commercial departments as agents. The increase in the percentage of products sold by enterprises on their own requires an increase in stock, which requires the enterprises to provide much more current capital than they did in the past.

Various kinds of trade centers and wholesale markets have been set up one after another in our cities and agricultural and sideline products distribution centers. They require large amounts of money to pay for future goods with a high-volume turnover. In some provincial trading centers, over 95 percent of the payments are made for future purchases of goods.

The lateral economic cooperation that has developed in the past few years has also raised the demand for the corresponding development of lateral accomodation of funds, many forms of which have also required corresponding increase of funds.

As we have opened up various kinds of markets, there has also been a satisfactory trend in the development of our tertiary industry. A new situation of all sectors--the sector owned by the whole people and the collective and individual sectors--making efforts to develop tertiary industry has emerged. This has also expanded the demand for funds.

To sum up, in spite of the increase in the total amount of current capital employed by our enterprises year by year, with our production scale, purchases, and sales quickly expanding, our failure to ensure the supply of basic amounts of current capital for our new projects and extension projects, our current capital devaluing owing to the rise in the prices of raw and processed materials and our failure to satisfactorily carry out our administration and management, there has been a shortage of current capital. This year, the increase in current capital loans arranged by the state will not be as big as that last year and we can expect a worsening shortage of funds because we want to ensure an annual growth rate of 8 percent. Therefore, we should try every means to ease our shortage of current capital. This has already become an urgent task that allows no delay.

II. The Main Ways Out to Alleviate Shortage of Current Capital

The normal cycles of the movement of current capital are not only determined by the level of production, management, and administration of the enterprises concerned, but also by the production, distribution, exchange, and consumption in our society. Therefore, in order to alleviate the shortage of current capital, on the one hand, we should intensify our management over current capital in order to rationally use our current capital; and on the other hand, we should improve our macroeconomic control, do a good job of vertical allocation and lateral accommodation of funds, tap our financial potential and increase our supply of funds. In the near future, we propose the adoption of the following measures:

A. We should persist in carrying out the lending policy of "making distinction between different cases and choosing the best projects to support," and help enterprises get the funds that they urgently need in their production and operation.

1. We should give financial support to enterprises that produce marketable products. For example, we should conscientiously help and give priority in providing loans to energy, communications, transport and raw and processed materials enterprises, the light, textile, electronic and machine building enterprises that produce marketable products, the defense industry enterprises that have switched to the production of civilian products and the enterprises that earn foreign exchange through the exportation of their products.

2. As for the products that are produced all the year round but for which the demand is seasonal, such as fertilizers and pesticides and the products such as automobiles which are unmarketable for the time being but for which there will be a great demand in the long run, our financial department can allocate some funds or our bank can provide some interest-free loans to help our commercial and materials and goods departments purchase and keep in store these goods and thus play the role of reservoirs. As for the goods such as tractors that do not sell well because our peasants do not have enough money to purchase them despite their need for them, we should properly relax a little our control over agricultural loans in order to solve this problem.

3. Our banks should provide special loans for our enterprises to repay their over due debts and thus help enterprises with such debts to settle their accounts in order to avoid chain reaction. At the same time, we should improve our service for the settling of accounts, develop the business of discounting commercial bills of exchange, enlarge the scope of the use of checks and allow individual traders with good reputation to settle their accounts by checks.

B. We should raise funds through diverse channels at diverse levels in order to expand our sources of current capital.

1. We should attract more bank deposits. Bank deposits are the main way to raise funds widely from the community. In order to meet the demand for more current capital, in addition to continuing to improve our service attitude and quality, we should make greater efforts to set up more deposit-taking centers, do a good job of attracting bank deposits from officers, institutions, and enterprises, gradually set up urban credit cooperatives and thus attract more funds from our community into our banking system.

2. The various specialized banks in our cities can issue financial bonds. Now the per capita cash in hand for our urban residents is about 70 yuan and the income of the residents in our large cities is 10 percent higher than that in our medium-sized and small cities. If the various specialized banks in our

cities pay attention to exploiting our cities' strong point of having a big population with high income and issue certain amounts of financial bonds there to raise funds to match their lending of current capital, then they will promote our production and help our market to prosper and raise the income of our people.

3. We should raise funds from the community under the administration and supervision of our banks. The activities of raising funds from the community are a supplement to bank credit. This can transform some of our consumption funds into production development funds for a certain period of time. Furthermore, it can strengthen our enterprises' financial concepts and sense of responsibility in effectively employing their funds. However, our banks must exercise a macroeconomic control over the general scale of the activities of raising funds from the community, intensify their examination and inspection over the issue of shares and bonds by our enterprises, and encourage our enterprises to mainly employ the funds that they have raised in this way as their additional current capital.

4. We should utilize commercial credit. The enterprises that produce marketable products can adopt the methods of purchase by credit, receiving prepayments for sales, compensation trade, and attracting investment to get financial support from their buyers and thus overcome their shortage of current capital.

C. We should grasp production and circulation simultaneously and speed up the turnover of our current capital.

In the sphere of production, we should organize our production in the light of market demand, in other words, the quality, varieties and quantities of our products should meet the demand in our society and thus be marketable.

In the sphere of circulation, we should satisfactorily arrange two links--the marketing of products and the purchase of raw and processed materials. In accordance with the principle of "making all-round arrangement, taking into consideration both customers and goods, ensuring the supply for key sectors and taking into account general demand," we should strengthen the organization of our transport and readjust the structure of our transport industry. We should check the stock level of our finished goods and thus keep a rational level of stock. We should intensify our control over current capital and strictly forbid the practice of using our current capital for capital construction or other purposes.

D. We should strictly control the scale of our capital construction and conscientiously implement the principle of "production first, and capital construction second."

1. The 30 percent of current capital that must be initially provided for new projects, extension projects, and projects to increase production capacity that are arranged by the state, should be included in our total scale of investment and allocated by our financial departments.

2. Some units have not spent their funds for investment in fixed assets or have begun to spend the funds but will not spend them all for the time being, so we should allow them to employ some of the funds as their additional current capital.

3. All the projects that our enterprises are carrying out with their own funds should be provided with the initial percentage of current capital by the enterprises concerned. Our banks should refuse to make any loans to those projects that are not provided with the initial percentage of current capital.

4. We should establish the system that every year our enterprises should transfer a portion of their increased profit to increase their current capital.

5. We should satisfactorily solve the problem related to the needs of funds for projects whose construction has been completed for the beginning of their operation. According to our existing financial system, these enterprises have to rely on bank loans if our financial departments do not supply them with the initial share of current capital. Therefore, we propose that our banks lend them special loans in order to ensure that these enterprises can go into operation and yield investment results according to schedule.

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CSO: 4006/14

JINGJI GUANLI ON TIGHT MONEY POLICY IN TOWNS

HK220825 Beijing JINGJI GUANLI in Chinese No 8, 5 Aug 86 pp 7-8

[Article by Xue Tao [5641 1718]: "Countermeasures Against the Difficulties in Town and Township Enterprises Arising From the Tight Money Policy"--edited by Lin Daojun [2651 6670 0689]]

[Text] Since the implementation of the state's tight money policy, town and township enterprises have been faced with problems and difficulties in their production and management. How can these difficulties arising from tight credit be coped with so that town and township enterprises can develop steadily? I recommend the following measures:

1. Seriously carry out feasibility studies, trying to ensure that all new items of investment are successful. Several years ago, control over loans to town and township enterprises were neither adequate nor strict. The result was that some town and township enterprises, eager to get rich and realizing that loans were so easy to obtain, fell into the trap of investing in whatever items they could think of, without carrying out careful market surveys and scientific studies of the proposed items. The economic results of such investment were of course unsatisfactory. Hence many enterprises failed, and some even collapsed. Now that the state's tight money policy has been implemented, the financial departments have strengthened examination procedures of how loans are to be used, adhering strictly to the principle of "granting loans only for items with good prospects." This has forced the town and township enterprises to pay attention to feasibility studies for proposed new items. In order to secure good economic and social results for new items, and in order to ensure good profit potential and ability to repay loans, the departments concerned and technological personnel must be invited to carry out studies to confirm feasibility when town and township enterprises decide on new items of investment. They must give positive proof of the advanced nature of the new items and of the competitive power of the products in the market. They must examine the ways in which capital is to be obtained and the channels through which supply of raw and subsidiary materials are to come. And they must also give consideration to the profit margin of the products in addition to considering the volume of production. Allowances must be made when considering these factors. In particular, allowance must be made for future changes in the market, and it is essential that projections be made, which should be reliable enough to facilitate decisionmaking. This premise

provided, there is still the need to invite the financial departments to carry out, several times if necessary, examinations of the item in question, which would only ahead when its feasibility is thus confirmed. These measures ensure that new items for investment will be made in the right direction, that there will be good results, and that quick return will follow capital investment, which will then also be recovered quickly.

2. Build up larger accumulations in order to increase the ability of towns and townships to change their present states and to develop themselves. At present, many town and township enterprises believe they can rely on loans for their existence. Their only source of money is the banks, and they rarely think about putting anything aside. With the implementation of the contract responsibility system for town and township enterprises, some contractors have been unable to correctly perceive the proper relationship between accumulation and distribution. They were only interested in having their own terms be "red" and prosperous and never cared about whether the enterprise would continue to develop. Some threw out bonuses at will and were very generous in giving out money and materials under various pretexts. The result of such practices was that while at one end the state was assured of its tax revenue and at the other end the employees got large increases in income, the enterprise in between was unfortunately left with nothing. Without any liquid capital in their hands, enterprises did not have the least re-vitalizing ability, and they could only turn to the banks for loans whenever they wanted to embark on a new item, renovate machinery and equipment, or even purchase raw and subsidiary materials. Adding to this situation, there were town and township governments that extracted too much revenue in the form of profit for the state from the enterprises, which also had heavy social responsibilities to further strain their financial resources. They were thus relieved of whatever pitiable accumulations they had managed to save up and hence lost all their vitality. Such situation didn't work. Now, money supply is tight, and the town and township enterprises can no longer rely solely on loans to maintain their existence and to develop. They must strengthen their own revitalizing ability. Therefore, town and township enterprises must seriously and correctly deal with the triangular relationship between state, collective and employee. On the premise that full payment of the state's tax revenue should be assured, a reasonable proportion for distribution and accumulation should be worked out so that town and township enterprises would be able to retain enough extra from their after-tax profits to invest in expanded reproduction. In particular, it is very necessary to help employees understand that they should not have their eyes fixed only on small, short-term benefits. They should learn to look ahead to the long-term prospects. They should learn that it is often advisable to take now in order to be able to get more in the future. On this basis, enterprises should try to appropriately retain more accumulation by means of soundly established systems so that they will have enough capital to change their own states and develop themselves. At the same time, town and township governments should also understand the wisdom of "give, if you want to take." They should, as is appropriate, let the enterprises have a larger share of the profits, and never fall into the traps of "killing the goose that lays the golden eggs" and "draining the pond dry for fish." Effective measures should also be taken to

put an end to unreasonable contributions. They must try hard to lessen the financial burdens of the enterprises, help the enterprises to retain larger accumulation, and let them have more liquid capital to cope with the difficulty of tight money supply.

3. Look inwards, "exploit potentials," "reform," "innovate," and strive to improve management to achieve better results. In the past, many town and township enterprises believed in "opening new avenues to increase production." They looked outwards and tried to have extensive expansion of reproduction. The result was that capital construction suffered from too extended a front line, so much that even the strategic points were jeopardized, making it impossible to quickly yield quick effects on any scale. Some items went ahead with great effort, but high investment and low yields produced very poor economic effects. This was obviously not a good way to solicit economic effects, and given the present tight money policy, this strategy is now impossible. If town and township enterprises want to have economic results, they should refrain from the practice and rely mainly on extensive expansion of reproduction, and quickly switch to relying mainly on intensive expansion of reproduction. They must work hard on consolidating themselves, strengthen their management aspects, train and build teams of technological, sale-purchase and finance-account personnel by re-structuring the leadership, and strengthen cultural, technical and professional training for employees. That is to say, one must try hard to improve the quality of the enterprises. One must also organize the technological personnel and the employees, starting from the present basis, to exploit potentials, innovate and reform. The enterprises must increase the volume of production, improve the quality of products and widen the scope of the market to achieve the goals of selling the right products, selling quickly and repaying loans quickly. At the same time, enterprises must seriously check and clear stocks, take positive measures to deal with unsold commodities, and try hard to recover idle capital. By means of these inward-directed potential exploiting measures, enterprises can accelerate capital circulation and value increment. In this manner, town and township enterprises will be able to continue to increase production, income, and economic results without obtaining too many loans under the present tight money policy.

4. Give a free hand to establishing lateral ties and open up more channels for obtaining capital. Now that the tight money policy is in force, town and township enterprises can no longer rely on bank loans as the only source of capital for developing production. They must, in line with the new situation of reform and open policy, direct their attention to the key issue of vitalizing capital and establish multi-level, multi-form and multi-channel lateral capital ties. Town and township enterprises have the advantage of having labor supply, land, and natural resources over large and medium-sized enterprises in the cities. They should fully exploit this advantage of theirs to join up with the city enterprises, so that their own advantage can be paired up with that of the cities in terms of capital, equipment, technology, and management. This will bring benefit to both parties, and is an effective measure to help town and township enterprises solve the problem of capital. As an example in this respect, town and township enterprises in Wuxi County,

Jiangsu Province, have achieved striking and significant results. They have been able to attract outside capital by means of compensation trade and joint-venture factories, etc. They have thus relieved the difficulty of lack of capital and have been able to continue to vitalize their production and management in spite of tight money supply. As for other effective measures, some town and township enterprises of the suburbs of Yancheng City of Jiangsu Province have been successful in raising capital for enterprises development by using such methods as contributing labor as capital and operating joint stock factories etc.

5. Establish the notion of credit standing and try to win the positive support of the banks. In the past, there was the phenomenon of "eating from the same big pot" in the management of loans, and many town and township enterprises failed to distinguish between loans and relief funds. They "only wanted to borrow and never wanted to repay the loans"--a very strange phenomenon, and were always hoping to be exempted from repayment. This serious tendency adversely affected the intended effect of bank loans. Many enterprises lost all their vitality under the burden of snow-balling old debts. The leaderships of these enterprises had no financial knowledge and did not know that loan interest meant compound interest. They did not know that unpaid loans would "snowball." In fact, the longer one does not repay, the larger the debt will become, which is very uneconomical. Enterprise leadership with financial knowledge know that loans are good to have, but they also know that early repayment is advisable. This will not only improve the economic results of the enterprises themselves, but will also build up their credibility. Under conditions of tight money supply, banks will investigate loan applications scrupulously and long repayment terms will only be granted under strict conditions. In such circumstances, the banks will also prefer to select enterprises with good credit standing for granting loans. Enterprises that borrow frequently and repay early will win the trust of the banks, and it will be easier for them to obtain loans. Therefore, all town and township enterprise leaderships have to study economics and finance and learn management skills to make themselves wise men. They should learn that when the term of a loan is due, credibility is at stake, and even if remittance for their sales has not yet arrived and no funds are thus available in the enterprise's accounts, it is still advisable to make every effort to repay the loan punctually. This is one way to ensure the availability of loans.

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CSO: 4006/14

ECONOMIC MANAGEMENT

DISTRIBUTION RELATIONSHIP BETWEEN STATE, ENTERPRISE DISCUSSED

HK231125 Beijing JINGJI GUANLI in Chinese No 8, 5 Aug 86 pp 13-17

[Article by Zhou Shaopeng [0719 4801 2590]: "On the Distribution Relationship Between the State and the Enterprise"--edited by Liu Jichong [0491 0366 2490]]

[Text] The distribution relationship between the state and the enterprise (referring to enterprises owned by the whole people; same below) is a new problem that appeared once mankind entered the socialist era. Up to now, all the theories and practices have not been able to satisfactorily answer and solve this problem. The originators of Marxism made a general description of the distribution relationship under socialism and under communism, that is, under socialism, distribution is according to work, and under communism, distribution is according to need. However, this applies to the distribution of consumer goods to the individual. It is governed by the precondition that all the means of production are owned by society and commodity production and commodity exchange do not exist at all. Out of the expectations of the originators of Marxism, in the current socialist society, commodity production and commodity exchange still generally prevail, the individual labor of the workers still cannot directly become social labor and it is still necessary to pass through the form of exchange at equal value before it can be converted into social labor. As for united labor, this kind of conversion must still go through the stage of collective labor. Society recognizes the necessary labor volume crystallized in the commodities and not the labor volume actually consumed. Under such conditions, distribution according to work cannot be like what Marx imagined and planned, that is, society directly carrying out distribution to each worker. At the same time, due to the existence of commodity production, enterprises engaging in collective labor, are not only the basic units of social production but also relatively independent commodity producers and entrepreneurs, and must possess the ability to transform and develop themselves. Hence, a new problem arises: what should be the distribution relationship between the state and the enterprise?

I. Relating To the Goal of Distribution

In studying the distribution relationship between the state and the enterprise, it is necessary, first of all, to determine the goal of distribution. At present, on the problem of the distribution relationship between the state and the enterprise, people have harbored different kinds of understanding (for example, some comrades advocate distribution according to work, that is, the first layers of the two levels of distribution according to work; some comrades advocate distribution according to capital, that is, turning state funds into shares, and the relationship between capital and its amount determines the distribution relationship between the state and the enterprise; and so on). The cause for this is the lack of a unified understanding about the goal of distribution.

As everybody knows, when Marx analyzed capitalist commodity production, he divided commodity value w into three parts, namely, c, v, and m. Of them, c is the value of the transferred means of production, v is the value of labor, and m is the surplus value taken by the capitalist. Under socialist conditions, due to enforcement of the system of public ownership of the means of production, labor power no longer is commodity, the wages of workers are no longer the value of labor power but are compensation for labor, and m no longer goes to the capitalist but to the whole body of workers and laborers. However, commodity production still exists in socialism and in form the composition of the value of commodities is still in three parts, namely, c, v, and m. This being the case, what is it that the state and the enterprise need to distribute?

First, c cannot be taken as national income for distribution. This is because it is compensation for the consumed means of production, being the basic condition for maintaining simple reproduction. If the state has no desire to stop or reduce the production of a certain enterprise, c, and the whole portion of it, should be retained by the enterprise. In the past, we took a portion of c (depreciation of fixed assets) and divided it. As a result, we suffered a great loss, and the equipment of many enterprises became dilapidated, thus disrupting production. We should remember this lesson.

Putting c aside, v plus m remain, that is, what we usually call net production value. This may still be divided into the following conditions:

The first condition is: the distribution between the state and the enterprise is v (more precisely we should say it is the v of the enterprise determined by the state). That is, the enterprise takes the whole of its receipts from the net production value and expends it on consumption by the staff members and workers individually. The so-called two grades of division according to work refer to this condition. The first to advocate this theory is our elderly teacher Jiang Yiwei. I understand that he brought out this question when touching on the distribution of the means of living. He pointed out: "Under the principle of distribution according to work, that which truly belongs to the staff members and workers of the enterprise is v, the means of consumption or labor which can be distributed to the individual staff members and workers of the enterprise or collectives for their enjoyment. This portion only is truly a benefit to the staff members and workers of the enterprises, and all others should be said to belong to the sphere of "deduction" and not to the sphere of "division according to work" (Jiang Yiwei: "On the Problems of Division According to Work and the Wage System," "Study of Certain Problems Relating to the Reform of the Economic Structure and Enterprise Management," p 241). In my opinion, the active meaning of this theory is that it integrates well the Marxist theory of distribution according to work with socialist economic practices. The various kinds of doubts people have on the two levels of distribution according to work are centralized on one point, that is, whether reference is made to distribution to the enterprise or to distribution to the group of staff members and workers of the enterprise. Since in real economic life, the receipts of an enterprise (profit retention by the enterprise) on the one hand do not entirely include the means of consumption of the individual staff members and workers and on the other hand include a portion of the expenses on expanded reproduction, the problem becomes more complex. To avoid misunderstanding, I believe that it is more appropriate if the measure of the state enforcing distribution according to work on the enterprise is changed to enforcing distribution according to work on the enterprise's staff members and workers collectively. Some comrades are of the opinion that pure distribution according to work is not right since the determinant of the fruits of an enterprise's labor is not merely the collective labor of the staff members and workers of the enterprise (including physical labor and mental labor) but also includes other factors such as the production conditions; hence the distribution between the state and the enterprise cannot be distribution according to work but it would be better to have two levels of distribution. In reality, after the state has adopted various measures to readjust the grade differences in the receipts of the enterprises, the fruits of labor of the enterprises are generally manifested in the fruits of labor contributed by the staff members and workers of the enterprise to society. The question is whether the enterprise can distribute the whole of these fruits of labor to the staff members and workers and whether there is need to make various kinds of "deductions." This is a problem that must be studied further.

The second condition is: The distribution between the state and the enterprise is m. This is based on the precondition that the state making direct distribution to the individual laborers is not precluded. Then, what should the distribution be like? Some comrades advocate the viewpoint of "the relationship between the capital and its amount determining the distribution relationship between the state and the enterprise." This viewpoint believes that the distribution relationship of benefits between the state and the enterprise in reality includes two strata. One of them is the relationship between the state as the formal representative of society and the economic unit creating the wealth; the other is the relationship between the state at the present stage representing society as the owner of the means of production and the enterprises holding and using these means of production. Because of the existence of the first stratum of the relationship, the enterprise must pay general taxes to the state. Leaving aside the first stratum of the relationship, the distribution relationship between the state and the enterprise can only be affected and determined by the capital (amount). The final conclusion of this viewpoint is: It is necessary to enforce the system of converting state funds into shares and the owners of the funds resort to the method of collecting share dividends in handling the distribution relationship between the state and the enterprises (see Watson's "On the Distribution Relationship Between the State and the Enterprise," "China's

Social Sciences," Issue 1, 1986). In my opinion, this viewpoint of dividing the relationship between the state and the enterprise into strata or grades is helpful to our study of the distribution relationship of the two and, furthermore the distribution brought about by the first grade of relationship is correct. However, whether or not the distribution brought about by the second grade of relationship must be the relationship of the owners of the capital funds collecting share dividends needs to be examined. As everybody knows, share dividends exist under the precondition of a share and stock economy. Under socialist conditions, whether or not a share and stock economy can universally prevail is well worth studying. This is because under the conditions of the universalization of the stock and share economy, although it is possible, by means of the state controlling the shares, or the state to command an absolute supremacy over the shares, yet this inevitably will affect the realization of the system of public ownership of the means of production and distribution according to work. Even though we concede that a share and stock economy can still be universally enforced, there will still be many contradictions. First, if certain enterprises and staff members and workers have no part in any shares and all the capital funds belong to the state, then the surplus products can be taken away by the state. What then is there to distribute? Second, assuming the staff members and workers do have some shares but the enterprise does not enter any shares, then a portion of the share dividends will be distributed, according to the shares, to each and every shareholder. Then what is there left to talk about distribution internally in the enterprise? Third, assuming that the staff members and workers have not purchased any shares while the enterprise uses its own funds to subscribe to the shares. In such a case, without discussing whether or not the state can for long hold control over the shares, as for the share dividends earned by the enterprise, will they need to be distributed among the staff members and workers. If so, on what basis should the distribution be made?

Thus, only the third condition remains: that is, the distribution between the state and the enterprise is v plus m. This was a method first enforced by certain enterprises in Sichuan Province and it is still being enforced. They call it "xu-ben-fen-ching" or "deduct the capital and divide the results" (that is, divide the results after deducting c). By so doing, the value of the products of the enterprise is partitioned into c, v, ml and m2. Of them, v belongs to the enterprise's staff members and workers collectively; ml belongs to the enterprise but it cannot be converted into v, and its ownership right still belongs to the state and the right of using it belongs to the enterprise; m2 belongs to the state. The difficulty of the problem is how to carry out this partitioning. Quite obviously, to attempt to employ a certain principle (such as according to work or according to capital) to generalize this partitioning is extremely difficult, because the determination of v and ml and m2 is governed by their separate objective demands and internal law. However, if we consider that ml as also belonging to the state (since the ownership right of ml still belongs to the state), then the distribution relationship between the state and the enterprise becomes the distribution relationship between the state enterprise's staff members and workers collectively, and this can thus be generalized by distribution according to work. Possibly, some comrades may ask: If the surplus products all belong to the state and all the staff members and workers still get is [garble] is this not going back to the former structure? As I see it, this is not. First, although ml in reality belongs to the state, it is retained for use by the enterprise; second, v is not determined in a unified manner by the state beforehand; it changes at any time following the good or poor business performance of the enterprise. Later on we shall talk more about this point.

II. Regarding the Sequence of Distribution

Briefly speaking, the so-called distribution sequence refers to who shall receive first and how. Since the distribution sequence directly affects the distribution amount, it is exceedingly important in determining the distribution relationship between the state and the enterprise. In his article "Critique of the Gotha Program," Marx made a detailed description of the distribution of the social gross product. Generally speaking it is: First, carry out the various deductions, then follow up with distribution to the individual workers. Despite our inability to fully copy Marx' distribution model, the basic tenet can still be used. In the past when we carried out the distribution of the social gross product, after first deducting c, the remaining portion was first distributed to the individuals (that is, the salaries of the staff were beforehand determined by the state), following which the various deductions were made. Reversing the order of the sequence may be said to be the basic cause leading to the growth of the practices of the "iron rice bowl" and "everybody eating from the same big pot." In my opinion, from now on, the distribution sequence should be changed to as follows: First, the state deducts m2; next, the enterprise (in reality also the state) deducts ml; finally, v is distributed among the staff members and workers. Ml and m2 are in effect the last five items of the six items for deduction mentioned by Marx. Of this, the deduction of m2 is relatively complex; it still needs to be further divided and the corresponding distribution sequence should be determined. We may consider that it can be divided into "grade-differential receipt," "capital receipt" (within the limit of a fixed amount, this kind of receipt is necessary to a socialist commodity economy) and "general receipt" (equivalent to deductions on collective economy and individual economy). The distribution sequence is: First, deduct the "grade differential receipt," then deduct the "capital receipt," and finally deduct the "general receipt." Regarding the deduction of ml and viewed from the angle of its use, if it is used on accumulations of a productive nature, then it need not be further divided; but if it is used on both productive accumulations and non-productive accmulations, then the productive accumulations should be first deducted, followed by the deduction of the non-productive accumulations. Regarding the form the above-mentioned various deductions should take, we shall discuss it later on in this article. As to the extent of the deductions, Marx believed that "it should be determined according to the currently available data and forces or strength" (See Marx' "Critique of the Gotha Program," "Selected Works of Marx and Engels," Vol 3, p 9). Here the phrase "determined by the currently available data and strength" means, I believe, determined by the past distribution conditions and actual economic strength. The process of carrying out deductions from the enterprise's net production value is at the same time the process of determining the collective receipts of the enterprise's staff members and workers. If all the deductions are reasonable, the size of v will follow the good or bad performance in the enterprise's business operations and change accordingly. This in reality is the state enforcing distribution according to work on the enterprise's staff members and workers collectively.

III. Regarding the Principle of Distribution

The distribution principle mentioned here mainly refers to the principle to be followed in carrying out the above-mentioned various deductions (including deductions on m1 and m2).

The general principle should be that it must be beneficial to the development of the social productive forces. Under the guidance of this general principle, when making a deduction on m2, it is necessary to insist on the following concrete principles:

First, vertically it is necessary to insist on the principle of simultaneously caring for the state's interests, the enterprise's interests and the staff members' interests. Concretely speaking, it is necessary to ensure that the state's financial income will continuously increase, that the enterprise possesses a definite ability to expand its reproduction and also that the financial receipts of the staff members and workers will be gradually elevated. Under ordinary conditions in a stated period the financial expenditures of the state have a limit and the financial revenues of the state (including receipts from all sources) should in principle not be lower than this limit. Following the development of the socialist construction enterprises, the state's financial expenditures are bound to continuously increase while correspondingly its financial revenues must continuously increase. But the main source of the financial power of a country comes from the enterprises' development in production. If the production of the enterprises fails to develop, then the state's financial revenues will become water without source and wood without an origin. This thus demands that we must provide the enterprises with a definite capacity to expand reproduction. At the same time, the ultimate source of the development of production of the enterprises comes from the enthusiasm for production on the part of the broad masses of staff members and workers. To fully arouse this enthusiasm, it is again necessary to ensure the gradual improvement of the standard of living of the staff members and workers.

Second, horizontally it is necessary to insist on the principle of equality in competition among the enterprises. Competition is the product of a commodity economy. Since socialism still enforces a planned commodity economy, competition is unavoidable. In order to bring into play the active role of competition, so as to effectively utilize the social resources and arouse the enthusiasm of all the enterprises, the state must, wherever possible, create conditions for equality in competition between the enterprises. However, insofar as the production and operation conditions of the enterprises are concerned, regardless of internal conditions, or external conditions, or subjective conditions or objective conditions and under any conditions complete equality cannot be attained. For example, regarding the geographic location of the enterprises, the direction of development of the products, market environment, technological equipment, quality of the personnel, and so forth, at any time there is no possibility of their being alike. The subjective conditions and internal conditions aside, even in the case of the objective conditions and external conditions it is difficult to realize complete equality. Therefore, the conditions of equality mentioned here, with the exception of the conditions of credit and loans and the supply of raw materials, can only be manifested in the deductions on m2. Even in this case, due to the complex nature of the various deductions, equality is only relative. It is not realistic to think or to believe that complete equality can be attained through making a renewed assessment of the fixed assets of the enterprises.

Since the conditions for equality in competition among the enterprises must principally be manifested in the deductions on m2, then the deductions must be as rational as possible. First of all, deductions on "grade-differential receipts" must be based on the degree of plentifulness of the resources. Second, the holding and use of state funds should bear the economic responsibility according to the amount involved. Outside of this, the deductions on "ordinary receipts" should be made from the v plus m (after deduction of the grade-differential receipts and payment of fees on capital funds) of enterprises of different industries and trades and the deductions should be at an equal proportionate rate. As for the differences in receipts caused by the differences in the organic structure of the capital funds, aside from making a definite readjustment by enforcing the rule that the use of the funds must be compensatory, the remaining portion can be solved in the deductions on m1.

At present, the problems existing in the distribution relationship between the state and the enterprise, aside from that on the objective of the distribution, principally concern putting upside down the sequence of distribution. Of the various distribution measures adopted since the reform, a basic drawback is "whipping the swift ox." The retention ratio in profit retention and the base figure contracted for in profit contracting, the adjustment tax in converting profit remittance to paying tax, the determination of all these was based on the conditions of protecting the interests already earned by the enterprise. By so doing, it is not possible to solve the problem of relative equality among the enterprises. In order to thoroughly change this situation, it is necessary, first of all, to ensure that the state will obtain the portion it should get from the next receipts of the enterprise and leave to the enterprise the differential earnings it has made from the differences in the management and operation level. Naturally, the realization of this kind of deduction will have yet to go through a process. The irrational prices of products are a big impediment. But we should actively cultivate and create the conditions for the early consummation of this point. Only by so doing is it possible to truly make the enterprises operate autonomously and be solely responsible for their own profits and losses.

In making the deductions on ml, it is necessary to insist on the following principles:

First, we must firmly insist on the principle of paying simultaneous attention to production and to living. In the foregoing, it was already mentioned that ml should be used in developing the production of the enterprise and on measures for the group welfare benefits of the staff members and workers and cannot be distributed again to the individual staff members and workers. The size of ml not only determines the capacity of the enterprise to undertake expanded reproduction as well as its capacity of building up the group welfare benefits of the staff members and workers but also directly determine the size of v. Hence, in its reductions, it is necessary to enforce the principle of caring for both production and living.

Second, we must firmly insist on the principle of an increase of funds at the same rate among the enterprises. A so-called increase at the same rate in the funds of the enterprises means that the funds of the enterprises must increase each year at a similar growth rate. If we assume that the current distribution of industrial funds is rational or that the development of production is coordinated and harmonious, then, insisting on an increase at the same rate of the funds of the enterprises will ensure that social production will continue to develop in a proportionate and coordinated manner. Naturally, this is more or less abstract. Real economic life is much more complex.

Since the reform of the economic structure, we have met with a great difficulty in the distribution of the retained funds of the enterprises. If the state makes a unified ruling on the distribution ratio, then the hands and feet of the enterprises will be tied and the different needs of different enterprises in the organized formation of funds cannot be met. But if the state does not make a unified regulation on the distribution ratio, then it is possible that the consumption funds will grow too rapidly. Assuming that the volume of production development funds of the enterprises is linked to the volume of the funds in the hands of and used by the enterprises, then this problem may be solved. However, under current conditions, due to the great difference in the profit rate of the enterprises and the irrational profit retention ratio, to accomplish this point is comparatively difficult.

The deductions on ml we are discussing here are entirely different from the distribution of the current profit-retention funds of the enterprises both in respect of the objects of the distribution and the sequence of the distribution. Assuming ml is wholly used on developing production, then according to the principle of increase at the same pace of the funds of the enterprises and regarding the deductions thereon, the state should fix a unified ratio in accordance with the volume of funds held and used by the enterprises. Thus, on the one hand, if the funds held and used by the enterprises are large in amount, the deductions on ml will likewise be large in amount. This will make the enterprise reduce as much as possible its holding and use of the funds; but if the amount of funds held and used by the enterprise is too small, the enterprise's gross receipts will be affected and the individual income of the staff members and workers will be likewise affected. In turn this will force the enterprise to hold and use the amount of funds it must hold and use and literally will form an automatic regulation mechanism in regard to the holding and use of funds. On the other hand, in the case of enterprises which have a high organic formation of funds, the deductions on ml are more; conversely [with a low organic formation of funds] the deductions on ml will be less. This not only can eradicate the overly large differences in the individual income of the staff members and workers between enterprises with different organic formation of funds but can also ensure that enterprises with a high organic formation of funds will have sufficient funds for use in expanded reproduction.

If ml is not used wholly on developing the production of the enterprise but must still be used on collective welfare measures for the staff members and workers, then the deductions on this portion must be separately carried out, or the state will make the deductions in accordance with the number of staff members and workers, or the enterprise may be allowed to make its own decision.

At present, the difficulty is that certain enterprises, due to objective causes, are in extremely dire straits. If distribution is carried out according to the measures stipulated in the unified regulations, they can hardly continue to survive. Regarding these enterprises, a special policy should be instituted.

IV. Regarding the Form of Distribution

Having made clear the object, sequence, and principle of distribution, the form of distribution can also be imagined. Due to the distribution relationship between the state, the enterprise and the staff members and workers being complex in nature and possessing many layers and strata, I believe that so far as the state's portion of receipts is concerned, from now on, the principal form to be taken should be that of collecting taxes.

The state's adoption of collecting taxes as the form of obtaining its income or revenue, aside from meeting the objective demands of the character of the distribution relationship having many layers or strata, commands the following advantages if compared with the method of taking a percentage share of the profits: First, it can ease the contradictions brought about by the irrational prices. Through adopting such measures as collecting the products tax and the value-increment tax, the state can regulate the effects on the net output value of the enterprise caused by the price factor and this will be beneficial to bringing about competition in equality among the enterprises. Second, it can fix by law the distribution relationship between the state and the enterprise and thus ensure a stable growth in the financial revenues of the state. Third, it can enable the state to obtain relatively more economic benefits from the increased net output value of the enterprise and augment the enthusiasm of the enterprise for improving operations and management and increasing the economic benefits. Fourth, it helps in severing the liaison in economic benefits between the department and region and the enterprise, making the enterprise develop the economic liaison horizontally.

Here, it is necessary to discuss the problem of the concrete form of the holding and use, subject to compensation, of funds. At present, everybody is in agreement with the enforcement of the practice of the compensatory holding and use of capital funds and there is little disagreement about the measure requiring circulating funds to be wholly derived from credits and loans. There are only different views regarding the form to be taken in enforcing the compensatory holding and use of fixed funds. The main views are of three kinds: in tax form, in the form of payment of a fee and in the form of share holding. Under the conditions of the distribution object and distribution sequence being fixed, there is little or no difference between collecting a tax or charging a fee. But the form of share holding is entirely different. Comrades advocating share holding contend that the basic weak point of collecting a tax on the fixed funds is its nature of being fixed or the lack of elasticity. Collecting a tax gives no consideration to whether the performance of the enterprise is good or bad. On the other hand, shares carry the requirement of bearing the burden of considerable risks in operation. It is thus relatively better suited to the demand of elasticity in the enterprise's policy-making in business operations. In my opinion, this viewpoint needs to be examined. First, from the angle of shares to look at the compensatory use of capital funds which merely carries the attribute of interest is in itself erroneous. This is because share dividends and interest payments belong to two entirely different economic categories. Interest is income obtained by the owner of funds merely in the capacity of being owner of the funds. He is under no obligation to bear the burden of business risks; share dividends are the income obtained by the owner of funds in his capacity not only as owner of the funds but also as an entrepreneur, and he must bear the operation risks. Under the conditions of a socialist planned commodity economy, the ownership right of funds belongs to the state and the operation right belongs to the enterprise. Viewed from the angle of the relationship between the ownership of funds and the holding and use of funds, the state should obtain the "interest" income which does not require its bearing the burden of the operation risks and should not receive income in the form of share dividends. Second, the fundamental purpose of enforcing the compensatory use of funds is to make the enterprise bear the economic burden of the holding and use of the state's funds, making it improve the effects of the use of funds and to practice economy in the use of funds. The positive character of a tax (or fee) on funds precisely meets such a demand. However, if the burden borne by the enterprise is large when its business is good and if its burden is small when the business is poor, then this goes against the principle of equality in competition among the enterprises and also loses the original meaning of the compensatory use of funds.

Due to the many varied problems dealt with in this article and the limited and low level of the writer's understanding, this article definitely has many drawbacks and errors. The reader's comments and guidance are earnestly solicited.

/9599
CSO: 4006/14

BRIEFS

READJUSTMENT OF DEFENSE INDUSTRY--According to the West China edition of JINGJI RIBAO, in line with the central authorities' guideline on readjustment, transformation, and exploitation in third-line construction, under the leadership of the State Council's office for planning the readjustment and transformation of third-line construction, nearly 2,000 defense industry enterprises, undertakings, and other units in 8 provinces and 1 city in third-line areas have started readjustment work. According to the readjustment plan, about 7 percent of these enterprises will need to be closed, amalgamated, switched to other kinds of production, or moved to other locations. [Text] [Xian Shaanxi Provincial Service in Mandarin 0200 GMT 17 Sep 86] /9599

CSO: 4006/12

INDUSTRIAL PRODUCTION RISES IN JUNE AFTER DROP IN MAY

Beijing JINGJI RIBAO in Chinese 7 Jul 86 p 1

[Article by Cheng Yuan [4453 6678]: "Industrial Production Rose Steeply in June"]

[Text] Between January and May of this year, the national industrial growth rate dropped. There has been a great deal of interest in the situation since June began. On the afternoon of 5 July, the State Statistical Bureau released statistical data that had just been collected and totaled: during June, industrial production rose steeply. The GVIO for the month was 79.5 billion yuan, a 6.9-percent increase over the same period last year. It was an increase of 3.5 billion yuan over the previous month, a 4.6-percent increase. This was the highest monthly growth rate in the year to date. Experts feel that if this kind of growth can be maintained, then by the end of the year the planned monthly growth rate of 8 percent can be met.

Following China's excessively high rate of industrial growth last year, the growth rate dropped during the first quarter of this year. During January through March, the GVIO increased 4.4 percent over last year, which was a growth rate that was almost 18 percentage points lower than that of the same period in the previous year. This was helpful in the economy's transition from excessive tightness to looseness, and in the adjustment of product lines.

Since the start of the second quarter, the state has adopted a series of effective measures to address problems that affect the growth of production. At the same time that it has cleared and expanded distribution channels, and has emphasized raising productivity, it has also appropriately increased the rate of industrial growth. Beginning in April, the industrial growth rate has increased successively each month. Compared to the same periods of the previous year, there was a 3.9 percent production increase in April, 5.1 percent increase in May, and a 6.9 percent increase in June. During June, the GVIO was greater than that the previous year in all provinces, autonomous regions, and municipalities, except for Beijing. Combining the data from January to June, Zhejiang, Jiangxi, Anhui, Xinjiang, Ningxia, Nei Menggol, and Jiangsu had growth rates of more than 8 percent over the same period the previous year.

During the first half of this year, the GVIO was 428.44 billion yuan, which meets 47.8 percent of the annual plan's target. It is a 4.9-percent increase over the same period last year. Light industry increased 5.1 percent, still greater than heavy industry, which increased 4.6 percent. The infrastructure sectors, raw material and energy production, which are important to the national economy, have been in good shape. During June, output of pig iron, steel, steel materials, copper, cement, and manmade plates all increased more than 10 percent compared to the previous year. Electricity production increased 10.1 percent compared to the same period the previous year, a rate much higher than that for total industrial production.

Statistical experts at the State Statistical Bureau said that up until June there was no fundamental improvement in economic efficiency. Fewer state industrial enterprises had realized profits compared to the same period the previous year. There was an increase in the number and size of losses, product costs were excessive, and capital turnover was slow. Consequently, at the same time that the industrial growth rate is increased, special attention should also be directed at increasing economic efficiency.

12994/13046
CSO: 4006/1213

TERTIARY INDUSTRY CONTINUES FAST GROWTH

Beijing JINGJI RIBAO in Chinese 4 Jul 86 p 1

[Article by Cheng Yuan [4453 6678]: "China's Tertiary Industry Records Highest Growth Rate"]

[Text] The past 5-year period has been one in which China's tertiary industry has grown the fastest. The relative place of tertiary industry production (compared to primary and secondary industries) has increased each year, giving rise to the historically seldom seen phenomenon of tertiary industry growth exceeding that of the primary and secondary industries, and of tertiary industry growth rates exceeding that of total national production.

According to the State Statistical Bureau, the value of tertiary industry production in 1985 was 176.7 billion yuan. This is 95.8 billion yuan more than in 1980, an average annual increase of 12.6 percent. This is higher than the annual growth rates of the primary and secondary industries. In the total value of production in the three sectors, the value of tertiary industry production increased from 19 percent of the total in 1980 to 21.8 percent in 1985.

During recent years, in the midst of economic reforms and effective adjustments in the national economy, there has been attention directed at the relative place of tertiary industry. It is understood that the expansion of tertiary industry is an important characteristic of a modernized economy. Its relative position in the national economy has been raised, and a series of policies have been set to encourage the expansion of tertiary industry. There has been a large increase in investment in tertiary industry. Between 1981 and 1985, over 160 billion yuan was invested in tertiary industry as a part of basic construction investment in the state sector. This was 47 percent of the total amount invested during the period, thus changing the longstanding problem of insufficient investment.

At the same time, the number of employees in tertiary industry increased significantly, becoming the sector with the greatest capacity to absorb new workers. Between 1981 and 1985, the number of employees in tertiary industry increased 27.2 million people. This was 37 percent of all new employees during the period. Up through the end of 1985, the total number of employees in tertiary industry was 73.65 million people, which was a 60 percent increase over that of 1980, or an annual increase of 9.7 percent. The increase in new employees was much greater than that in primary and secondary industries. In 1985, there were 10.67 million retail, food, and service shops, a 4.3-fold increase over 1980.

With state encouragement of social resources being used to expand tertiary industry, the expansion of tertiary industry in the collective and individual economies has been particularly rapid. This has played a major role in tertiary industry. Between 1981 and 1985, the number of state employees engaged in tertiary industry only increased 7.1 percent, while the number of such employees in the collective and individual economies increased 1.4-fold during the same period. At present, tertiary industry units in the collective and individual economies comprise over 75 percent of the total in tertiary industry. The proportion of collective and individually operated retail stores increased from 16 percent of the total number of retail stores in 1980 to 60 percent in 1985.

In order to improve transportation and communication problems, the state in recent years has regarded transport and communication industries as key sectors for expanding the national economy. In 1985, the turnover rate in transported goods was 1.84 trillion tons/kilometer, an increase of 53 percent over 1980. The turnover rate in passengers almost doubled compared to 1980. Within 5 years, 73 domestic and 9 international transport lines were added.

12994/13046
CSO: 4006/1213

CHINA SECURES 13 SHIPBUILDING CONTRACTS

Beijing CHUANBO SHIJIE [SHIP WORLD] in Chinese 4 Jul 86 p 1

[Article by Hong Cang [3163 0221]: "China National Shipbuilding Industry Receives as Many Shipbuilding Orders in First Half of This Year as in All of Last Year"]

[Text] While the international shipbuilding industry has remained depressed, China's shipbuilding industry, which has only recently entered the world marketplace, has, in the midst of fierce competition, steadily expanded its ship exports. It has carried out the policy of opening to the outside and stimulating the domestic economy. It has relied upon its own technology, equipment, human resources, and other superior advantages. And it has particularly improved the knowledge of its staff and strengthened their commitment to overcome difficulties. In the first half of this year, the China National Shipbuilding Corp. received foreign orders for 13 ships, totaling 242,100 tons, worth almost $130 million. The number of ships, tonnage, and value all correspond respectively to the totals for all of last year.

During the 8.5 years between 1978 and June 1986, the China National Shipbuilding Corp. received foreign orders for 157 ships (including 48 in the 10,000-ton class), totaling 1.59 million tons. To date, work on almost 900,000 tons has been completed. All these ships were constructed according to the specifications of international ship classification agencies and international agreements. All over the world, shipowners and the international shipping industry have praised the ships' technical capabilities and quality of construction.

Among the 13 foreign orders received by China Shipbuilding, there is a high degree of automation specified and building the ships will be difficult. The ships are being built according to the specifications of the shipowners and the regulations of international ship classification agencies. The construction of the 118,000-ton oil tanker shuttle for the Norway Gelande Transport Co. involves the largest tonnage of any boat currently under construction in China. It is a special kind of ship. It will be used in the oilfields of Europe's North Sea. It will employ a single-point moor, and will load the oil that has been pumped from below the sea into the hold and then will transport it to docks on land. Therefore, it must be able to withstand the many kinds of environmental stresses encountered on the sea. This tanker, as well as an 18,200-ton multipurpose freighter and 12,600-ton multipurpose container ship, will have "fully automated engine rooms" and other new technologies. Some will have computer controls that are used in the newest ships developed internationally and some of which represent advanced standards in 1980's shipbuilding. Among these ships is a multipurpose freighter built by the Jiangnan Shipbuilding Co., which will be outfitted with safety equipment that is internationally approved and will permit shipment of certain kinds of dangerous cargoes that other ships are prohibited from carrying.

These 13 ships all will be equipped with engines made in China. The engine is the heart of the ship. In the past, ships built for foreign orders usually used imported engines. The main engines to be used in these 13 ships, from the 2,700-ton freighter to the 118,000-ton tanker, all will be engines built domestically using imported production technology. The smallest power capacity is 2,300 hp and the largest is 8,895 hp. In order to meet the expanding needs of China's shipbuilding industry and raise the economic and technical capabilities of the equipment installed on ships, China National Shipbuilding Corp. during the past few years imported over 40 production technologies, including those for internationally famed primary engines, secondary engines, and other equipment. The new technical knowledge was digested, used in trial production, and component parts were produced domestically. These technologies already have begun to play an important role, and will play an increasingly important role in the future.

During the course of securing the contracts for these 13 ships, China's shipbuilding industry displayed surprising talent in international bidding. The contract obtained by the Dalian Shipbuilding Co. for the 118,000-ton oil tanker and that obtained by the Jiangnan Shipbuilding Co. for the 18,200-ton freighter both were braveley secured in the midst of international bidding crowded with factory salespeople.

In addition, all of these 13 ships were designed by China's own ship design institutes, aside from the 118,000-ton oil tanker shuttle whose blueprints were supplied by the shipowner, and the 2,700-ton freighter, which was jointly designed. This shows that China's ship design technology has already reached advanced international standards. As far as the destination of these ship exports are concerned the order for three multipurpose container ships received by the Shanghai Shipbuilding Co. represents the first ships in the 10,000-ton class that China has exported to a Latin American country.

At present, shipbuilding yards and ship-design institutes all are working hard at preparatory tasks before work on these 13 ships commences. They are striving to assure quality and timely completion, create confidence, improve standards, secure even more foreign ship orders, and better serve international transport.

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CSO: 4006/1213

SMALL-SCALE ENTERPRISES

MARKET TRADE HITS ALL-TIME HIGH IN 1986

Beijing RENMIN RIBAO in Chinese 5 Jun 86 p 1

[Article: "Brisk Business in National Market Trade; Last Year's Volume of Business Topped 60 Billion Yuan"]

[Text] In the wake of the opening of the market system for agricultural byproducts, last year China experienced the welcome trends of a diversity of trade channels for rural products and a brisk business in market trade. Market trade business established an all-time high of more than 63.2 billion yuan. Most recent statistics provided by the National Bureau of Statistics delineated the following features:

1. The construction of market sales network locations has accelerated. In 1985 there were more than 60,000 market network locations, with close to 5,000 newly built that year--a 5.6 percent increase over the year before. Agricultural byproduct wholesale markets numbered more than 1,100, an increase of 100 markets or 9.3 percent. The accelerated construction of markets is not only advantageous to the timely sale of agricultural byproducts but also facilitates consumption by the town and rural masses. At the same time, promotes the construction of rural market towns.

2. The speed of increase of urban market trade business volume was faster than that of rural market trade business volume. In 1985, the national town and rural market business volume reached a record high of more than 63 billion yuan, an increase of 38.4 percent over last year. Of that urban market trade business reached a 12.1 billion yuan, an increase of 60.5 percent and rural market business volume reached 51.2 billion yuan, an increase of 34 percent. Large-scale increases in beef, mutton, pork, cooking oils, fresh eggs, poultry, vegetables, and aquatic products were evident in the urban market trade business volume business.

3. The increase in business volume of market trade was more rapid than that of the volume of retails sales of state-run and cooperative commercial society products. Last year, market trade business volume increased 38.4 percent, surpassing the 27.5 percent increase of retail sales of state-run and commercial cooperative society products. Market trade has already become an important channel of circulation for rural products and its position in the economic life of urban and rural people has markedly risen.

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CSO: 4006/1105

SMALL-SCALE ENTERPRISES

GUANGDONG TOWNSHIP, TOWN ENTERPRISES PROSPER

Guangzhou GUANGDONG NONGMIN BAO in Chinese 18 Apr 86 p 2

[Article by Rong Guangfeng [2837 0342 6912]: "What Is the Current Status of Township and Town Enterprises in Guangdong? Last Year Gross Income of Town and Township Enterprises Neared 20 Billion; Three Economic Indexes Simultaneously Increase, Category of Top-Quality Products Highest in Nation"]

[Text] The results of a recent compilation of annual statistics showed that, after a major increase in 1984, the number of township and town enterprises increased to 730,000 in 1985. They employed 4.2 million people, and had a gross income of 19.8 billion yuan, a 56.33-percent increase over last year. Taxes paid to the state totaled 853 million yuan, an increase of 55.1 percent and profits were 2.056 billion yuan, an increase of 52.4 percent. There was thus three simultaneous increases.

Last year, township and town enterprises faced a severe test with a national strengthening of macroeconomic control and a tightening of the money supply. Fourteen localities and cities throughout the province enjoyed increased production and revenue. In the cities of Foshan and Jiangmen, where small-scale enterprises are quite developed, efforts have been made to strengthen technology reform and develop intensive growth potential. This resulted in respective increases in total small revenue of 66.7 and 59 percent over last year. Prefectures and cities located in mountainous regions, such as Shaoguan, Merxian, Huiyan and the Hainan Autonomous Prefecture have expended major efforts in exploiting minerals, water resources, and other natural resources, and developing agriculture, aquatic breeding, and agricultural byproduct processing. Development stages have been accelerated , with Hainan Autonomous Prefecture experiencing an increase of 80.3 percent and Shaoguan an increase of 77 percent.

Implementation of the five levels of enterprise organization has also been a major reason for the accelerated development of township and town enterprises. Various prefectures, in addition to successfully setting up key township enterprises at the district and township levels, have at the same time devoted major efforts to sponsoring village-run enterprises, cooperative enterprises, and individual enterprises. Last year these three classes of enterprises increased in number, employees, and income by 60, 54, and 90 percent, respectively.

In the midst of developing township and town enterprises, localities have emphasized both quantity and quality--enabling a widespread improvement in product quality. Last year there was also 30 products that were awarded the Ministry of Agriculture, Animal Husbandry, and Fishery's top-quality designation--an increase of 18 over 12 in 1984 and accounting for 13.3 percent of the top quality products of China's 225 town and township enterprises.

The 22 industrial products among these represented 21.8 percent of China's 96 top-quality industrial products, the highest among all the provinces.

13284/12948
CSO: 4006/1105

FOREIGN TRADE AND INVESTMENT

INTEREST IN COMMODITIES EXCHANGE MAY BE AIMED AT GOLD SALES

Duesseldorf HANDELSBLATT in German 1 Sept 86 p 26

[Article by Udo Rettberg, Frankfurt: "Futures Exchanges: 'Business with the Future.' Peking Now Also Interested in Utilizing Them"]

[Excerpt] Futures are in demand as never before, not only in the United States, but also in the other Western countries. It is amazing that the PRC is also getting interested in the possible use of international futures exchanges. Peking has reached an understanding with the Chicago Board of Trade concerning the provision of special training for raw-materials specialists in the futures area.

Hence, late last April, the largest futures exchange of the world signed an agreement on this with the International Trade Research Institute (ITRI) of the Ministry for Foreign Economic Relations and Trade. There is talk in the world of futures that Peking's primary interest may be to stabilize the prices of agricultural and metal goods and, by so doing, get more reliable figures for the economic reconstruction of the country.

It is well known that the PCR is an important producer of nonferrous metals and, increasingly, of precious metals. Also, because of its many agricultural products, the country is also a net exporter. This is especially true for maize, where, according to Peking, exports in 1985 came to a total of 6.34 million tons. The international metal trade assumes that, over the next few years, the PRC will continue to strengthen its position as a producer of nonferrous and precious metals and that it may become an exporter of these raw materials.

Time and again, the view is expressed that other East Bloc countries are also resorting to futures exchanges in order to either manipulate prices or--in light of expected developments in their own countries--to stock up on certain raw materials at prevailing prices.

7821
CSO: 4620/70

WIDE RANGE OF COMMITMENT AMONG RESIDENT WESTERN BANKS

Duesseldorf HANDELSBLATT in German 1 Sep 86 p 8

[Article by sz, Hong Kong: "Foreign Banks Complain About Asian Business. Lloyd's Bank Reduces Commitment Slightly"]

[Text] Like other banks operating out of the British Crown Colony of Hong Kong, Lloyd's of England has cut back its presence in China, but it does not intend to abandon its China business altogether. This is what the head of the bank's China division, Tim Williams, told HANDELSBLATT.

THE WALL STREET JOURNAL reported in its China edition that numerous banks, including Lloyd's, are rethinking their business policies towards China in light of the uncertain investment climate in the PRC and their bad experience with credits.

In fact, some banks have imposed a hiring freeze on their China departments, and Lloyd's has laid off some key personnel. However, this is by no means a universal trend. The Hong Kong and Shanghai Banking Corporation, in particular--as the bank with the largest network in China--is undergoing a strong expansion and, just the other day, opened an additional branch office in the Chinese province, and German banks as well--among them the Bayrische Vereinsbank, which is the most recent bank to open a representative office in Peking--are taking a longer-term view of the business. Nonetheless, foreign banks operating in China, like those in the USSR, serve only "representative purposes and the establishment of contacts"--they cannot conduct any direct business. Hence, from that point of view, the affiliates are not profitable, although they may be able to initiate numerous business transactions. Still, a German banker said, "China's increasing need for capital should continue to make business interesting for Western banks beyond export financing, since a large number of projects under the 7th Five-Year-Plan must be financed by loans from foreign commercial banks."

Tim William noted that, in addition, Lloyd's has lost money on several China projects, especially on oil projects, where--because of the problems the firms in that sector are having (see HANDELSBLATT of 23/24 August)--credits extended by Lloyd's and other banks will not be repaid. "You can say we are consolidating our operations and waiting what the China business will bring in the future," he stated.

7821
CSO: 4620/70

FOREIGN TRADE AND INVESTMENT

GUANGDONG EXPORTS REACH RECORD HIGH

Beijing GUOJI SHANGBAO in Chinese 23 Jun 86 p 1

[Dispatch from Guangzhou by special reporter Zhu Fucheng [4281 1381 2052]: "In First 5 Months Guangdong Exports Leap to First Place Nationwide, Exceeding Liaoning and Shanghai"]

[Text] [Editor's Note:] The province has 12 foreign trade companies that have already met their export plans for the first half of the year; these, textile and grain and oils import-export companies have completed more than 70 percent of the whole year's plans. Eight city and prefecture port branch companies have met their half-year export plans; Shaoguan has already exceeded its annual plan, and Jiangmen is close to doing so. [End Editor's Note]

This year Guangdong Province's export trade situation has been consistently good, with the value of exports increasing steadily. According to preliminary industry statistics, in May the value of the province's export trade broke through the $300 million barrier for the first time. From January to May of this year, total export trade has amounted to $1,391,060,000 meeting 48.4 percent of the export plan for the entire year, a 118.7 percent increase over last year for the same period, which takes first place for export value and plan completion among the eight Chinese ports with export quotas of more than $1 billion, surpassing Liaoning and Shanghai, which have historically held first and second place. As of the end of May the import-export branch companies in Guangdong having already met their export plans for the first half of the year included: textiles, grain and oils, light industry, native produce, foodstuffs, tea, aquaculture, and salt. Of these, the textile import-export branch companies met 73 percent of the year's export plans, the light industry branch companies met 71.9 percent of the year's export plans, and the metal ores import-export branch companies met 63.4 percent of the year's export plans.

This year the measures taken by the various cities and prefectures in Guangdong is to expand export trade have taken effect; city and prefecture port branch companies have had self-managed exports 78 percent higher than in the same period last year. Those with self-managed exports meeting export plans for the first half of the year include: Shaoguan, Jiangmen, Zhanjiang, Zhaoqing, Huiyang, Guangzhou, Foshan, and Shantou. Shaoguan has met 126.5

percent of the year's self-managed export plan, thus leaping to first place for exceeding annual self-managed export quotas. Jiangmen has met 94.3 percent of the year's self-managed export plan, coming close to meeting the plan for the year. This city's export trade value has increased fastest; as of May, its export value was more than $100 million, an increase of more than $72 million over the same period last year, putting it in first place in the province.

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CSO: 4006/1205

FOREIGN TRADE AND INVESTMENT

SHANDONG FOREIGN TRADE EARNINGS INCREASE IN 1985

OW101029 Beijing XINHUA in English 1009 GMT 10 Sep 86

[Text] Jinan, 10 September (XINHUA)--Shandong province earned 2.67 billion U.S. dollars from exports in 1985--including sales of its most famous product, Qingdao beer. But provincial leaders say they want to earn more--even though they have quadrupled foreign earnings in a decade.

"To earn more we have to invest more," one provincial leader said today.

Part of that investment comes from the central government, which gave the province 1.78 billion U.S. dollars from its foreign exchange reserves over the last ten years. Most of the money was used to buy foreign technology and to upgrade the province's industrial plant--including the Qingdao brewery--to raise products to international market standards. Some of it have gone to finance partnerships with foreign investors.

Over the decade, foreign sources have signed 417 investment contracts with provincial enterprises. The contracts have resulted in 264 million dollars in cash, equipment and expertise coming into the province through 57 joint ventures and production agreements and through leases and loans, the official said.

The province has also earned foreign currency by selling the labor of some of its residents overseas to such countries and regions as Hong Kong, Iran, Kuwait, Mauritania and Spain, he said.

To attract foreign investment and improve production for export, the province has also been developing transportation and utility facilities in the coastal cities of Qingdao and Yantai, according to the official.

/12913
CSO: 4020/005

FOREIGN TRADE AND INVESTMENT

FUJIAN CONFERENCE SPOTLIGHTS EXPORT EXCHANGE EARNINGS

Fuzhou FUJIAN RIBAO in Chinese 2 Apr 86 p 1

[Article by Weng Xinhui [5040 2450 6540] and Zhou Junxiang [0719 0193 4382]: "Strengthen Export Foreign-Exchange Earnings and Promote the Economic Development of Fujian: The Fujian Foreign Economic Relations and Trade Work Conference Requests That Export Foreign-Exchange Earnings Be Stressed As a Strategic Task in the Economic Development of Fujian, That Enterprises Producing Export Commodities Be Given True Political Honor and That Employees of These Enterprises Be Allowed To Reap Real Reward"]

[Text] The Fujian Foreign Economic Relations and Trade Work Conference, which ended 31 March, requested that all departments, producer enterprises and supplier units develop a strong "awareness concerning export foreign-exchange earnings," make the strengthening of export foreign-exchange earnings a central task and promote the expansion of Fujian's foreign economic relations and trade [FERT].

Last year, Fujian's FERT departments focused their efforts on export foreign-exchange earnings and achieved great success, registering nearly $500 million in exports and exceeding the target in the state plan by 41 percent, and as of 20 March of this year, exports have risen by another 58 percent over the same period last year. Thus conditions in export work are good. Nevertheless, this performance falls quite short of the level that ought to be expected of Fujian given the degree to which the province has been opened up to the outside world. Jia Qinglin [6328 1987 2621], deputy secretary of the Fujian CCP Committee, stated at the work conference that the extent to which the province can be opened up to the outside world and the progress the province registers in using foreign capital and in importing technology will be determined to a large degree by export foreign-exchange earnings. Thus the latter must be stressed as a strategic task in Fujian's economic development and used as an important standard by which to evaluate the province's FERT and other economic work.

How can we strengthen export foreign-exchange earnings? Comrade Jia Qinglin suggested four ways in which we might do so.

The foundation of exports is production, and any measure designed to promote and expand exports must focus on mobilizing the initiative of producer enterprises. We must earnestly implement policy; directly link enterprise interests with export foreign-exchange earnings; give enterprises producing exports preferential treatment in terms of bonuses, after-tax profits and incentive rewards over those enterprises producing for the domestic market; and truly grant political honor and economic advantage to export enterprises and enable their employees to reap real reward.

The vitality of foreign trade enterprises, which constitute the main force in earning foreign exchange, must be enhanced. All relevant departments must create the proper conditions for foreign trade enterprises and support those enterprises with funds and credit. Those enterprises, in turn, must strengthen management so as to improve service, adopt flexible and varied forms of management so as to enhance their own vitality, develop strong notions of competition and cooperation, expand horizontal economic cooperation and enhance their competitiveness on international markets.

We must conscientiously study and adopt export strategies. We must give full play to Fujian's role as a window to the outside world; fully orient the province both to the world and to the entire nation; strengthen interprovincial cooperation; procure goods throughout the nation; adopt such forms as buying up entire lots of goods, joint ventures and serving as agents; and strive to exceed planned export quotas. We must also study the structure of export demand and the sequence of export development and, in accordance with actual conditions in Fujian, steadily develop hot-selling exports in marine culture, the processing of agricultural and sideline-industry products, machinery, electrical goods, raw materials, labor-intensive products and the like. In arranging technological imports, we must give first consideration to the needs of enterprises producing exports, and we must also use enterprises possessing the "three sources of capital" to increase the number of export channels.

We must strengthen leadership. Leading departments at all levels must adopt the spirit of the CCP so as to ensure thorough implementation of the party's guiding principles and policies on FERT. Economic and trade commissions of all levels must fully perform their functions as agencies managing FERT and take full charge of FERT work. And all departments in charge of production, banking, finance, goods and materials, and communications and transport must fall into line, make a concerted effort and adopt a good working spirit so as to promote, expand and deepen export foreign-exchange earnings.

Vice Governor Chen Binfan [7115 1755 5672] made assignments for Fujian's FERT work this year, requesting that all departments focus on the central issue of export foreign-exchange earnings; correctly handle the relationships between production and circulation and between foreign-exchange earnings and use; develop the concepts of economic results, of acting according to one's ability and of taking the whole picture into account; link foreign economic relations with foreign trade work; and integrate FERT work with overseas Chinese affairs work, with assisting impoverished counties and with work in the tourist industry so as to make new breakthroughs in Fujian's FERT work and to make new contributions to the development of the province's economy.

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XINJIANG SIGNS 28 CONTRACTS INVOLVING FOREIGN INVESTMENT

Urumqi XINJIANG RIBAO in Chinese 28 May 86 p 1

[Article by Li Yanlin [2621 1693 2651]: "Xinjiang Signs 28 Contracts Involving Foreign Investment; Stimulate Xinjiang's Economy and Accelerate Elimination of Poverty and Creation of Wealth; Investment Involving Foreign Funds Since 1985 Exceeds Total for Previous 5 Years"]

[Text] Dispatch from Urumqi--Xinjiang's use of foreign investment has been greatly accelerated since last year. As of the end of April of this year, and not including projects of the central government, 29 contracts involving foreign investment have been signed and approved; the amount of foreign funds involved totals more than $18 million. Since 1985, Xinjiang has undertaken 10 new projects using foreign investment that actually involve $10,534,000, exceeding the total for the previous 5 years.

Utilizing foreign investment is an important means of introducing advanced foreign technology and solving Xinjiang's shortage of funds. Of the 16 foreign-investment projects that have been completed in this region, most have achieved excellent economic and social returns. The Shihezi No 81 Sugar Works used a loan of 98,18 million Japanese yen from the Kyoei Co., Ltd. to import technology and equipment; using pressed-beet residue as its raw material, the newly constructed shop converts dried beet dregs into value. In the first year of operation, exports of the dried dregs were used to pay back the loan. Now the shop earns more than $1 million each year.

Xinjiang's use of foreign investment began in 1979. In particular, last year after the autonomous region's people's government announced foreign cooperative projects in Hong Kong and Beijing, and an economic conference on foreign trade was held in Urumqi, Xinjiang's use of foreign investment was greatly accelerated. Businessmen are now coming from 21 countries and regions to Xinjiang to discuss cooperative projects. The ways in which foreign investments are used are also gradually increasing; there are joint ventures, cooperative ventures, compensation trade, export credits, leasing, etc. Some new projects are also being enthusiastically discussed with foreign businessmen.

In addition to projects directly utilizing foreign investment, the region is also enthusiastically using foreign exchange loans from the Bank of China to import advanced technology and materials. These foreign exchange loans now total $50 million; they are being applied to more than 30 capital construction and technical reorganization projects and to the construction of 60 foreign trade bases. This will have a positive effect on developing the production of export goods in Xinjiang, increasing foreign exchange income, and accelerating technical reorganization.

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BRIEFS

FOREIGN INVESTORS OFFERED MORE PROJECTS--Taiyuan, 10 September (XINHUA)--Shanxi province, the largest coal producer in China, has recently announced 42 new projects for foreign cooperation. This is the third group of projects the provincial government has offered for foreign investors over the past three years, making the total number to 500. They cover railway construction, textiles, machinery, electronics, electricity, building materials and metallurgy. Peng Lixin, an official from the Provincial Foreign Economic Relations and Trade Department said the province needs foreign funds and technology in developing its energy and other industries. According to Peng, the province is willing to accept joint-ventures, leasing, trade-for-trade, compensation trade, cooperatives, loaning and other types involving both sides. In 1985, the coal output in the province came to 213 million tons, one fourth of the total produced in China. "We play a key role in boosting the national economy," Peng said, adding that the province plans to produce 400 million tons of coal by the end of the century. The largest open-cut coal mine in China, a joint-venture between the Occidental Petroleum Corporation of the United States and the China National Coal Development Corporation, is now under construction in the north part of the province. [Text] [Beijing XINHUA in English 0613 GMT 10 Sep 86 OW] /12913

GUANGZHOU TOPS EXPORT TARGETS--Guangzhou, 6 September (XINHUA)--Guangzhou city, one of China's main foreign trade outlets, has topped its annual export targets four months ahead of schedule, according to the city's foreign trade department today. By the end of August, the city had exported 398 million U.S. dollars worth of goods, topping the annual target by 0.02 percent or 90.55 percent more than in the same period of last year. Total exports are expected to reach 500 million U.S. dollars by the end of this year, an official from the city's foreign trade department said. The official attributed the achievements to, among other things, the fast development of the 72 export production centers and factories, export promotion drives and export encouragement policies. The official said that the exports to North America and Western Europe increased by more than 12 percent and the city's direct export trade with the United States in the first seven months of this year exceeded the total for last year. The city government granted more bonuses to export-oriented enterprises for the above-quota products and allowed them to retain more foreign exchange for more goods exported. [Text] [Beijing XINHUA in English 0151 GMT 6 Sep 86 OW] /12913

GUANGDONG COMMODITY REBATE SYSTEM--Recently Guangdong's foreign trade and taxation departments have decided to implement an export commodity rebate system. This system is a measure intended to reward certain producing enterprises that have export products. All foreign trade enterprises, including the central government's, local governments', and those with import-export licenses, may apply to tax bureaus for a reduction in the commodity tax or value-added tax after their products have passed through customs for export, and customs duties have been paid according to regulations. The regulations also state that products sold by overseas-Chinese farms and welfare enterprises to foreign trade enterprises for export are to be duty-free as well; after the foreign trade enterprises have exported these products, a rebate is given at the stipulated rate. For dutiable agricultural, forestry, animal-husbandry, or aquaculture products exported by foreign trade enterprises, those which were exempted from the product tax in the processing link may, after export, obtain a rebate on the product tax already paid in the purchasing link. Reduced-tax imported products purchased by foreign trade enterprises, including cosmetics, aluminum and nylon zippers, strung firecrackers, and crematory products, which are diverted for domestic sale are to be treated according to the stipulated tax rate; subtracting the differential rate after tax reduction, a supplemental product tax will be paid on the sales volume of the products diverted for domestic sale. [Text] Guangzhou GUANGDONG NONGMIN BAO in Chinese 22 Jun 86 p 2] 13322/12948

SHANDONG EXPORTS EXCEED $300 MILLION--At this spring's Guangzhou Trade Fair, total transactions for exports of Shandong products surpassed $300 million, an increase of more than $100 million over the 1985 spring Trade Fair and a historical record for Shandong export transactions at the fair. Shandong had 17 specialized import-export companies participating in this year's trade fair, of which 16 exceded the quotas that had been set for them. The greatest increases at this spring trade fair were racked up by light industry, cereal oils, livestock products, textiles, qing fang lian [7230 4791 5114] machinery, foodstuffs, drawnwork, and other companies. The principal products involved in these export transactions were peanuts, peanut products, peanut oil, bean-starch vermicelli, prawns, garlic, canned bamboo shoots, rbbit pelts, rabbit wool yarn, mink pelts, carpets, cotton yarn, Tsingtao beer, etc. [Text] [Jinan DAZHONG RIBAO in Chinese 28 May 86 p 1] 13322/12948

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SPECIAL ECONOMIC ZONES

LIANG XIANG DISCUSSES PROBLEMS OF, PROSPECTS FOR SHENZHEN

Beijing GUOJI SHANGBAO in Chinese 3 Apr 86 p 1

[Article by Ou Qinglin [2962 1987 2651], special reporter: "It Is Not a Contraction but a Continued Expansion: Interview with Liang Xiang, NPC Delegate and Secretary of the Shenzhen CCP Committee"]

[Text] In looking at problems, everyone has his own point of departure, and with different points of departure the resulting viewpoints and perceptions also differ. The people of special economic zones [SEZ] champion the spirit of "the ox who breaks new ground," are not given to superficial display and prefer to go about their plowing industriously. That is the impression this reporter received during his interview with Liang Xiang [2733 3276].

Everyone is concerned about SEZ development and, as we enter the Seventh 5-Year Plan, wonders what the new objectives for SEZs will be. To this question, Liang Xiang has already prepared numerous approaches and ideas.

"During the second half of last year, there was much discussion about the Shenzhen SEZ among people of all walks of life both at home and abroad. We believe that the creation and development of SEZs is an experiment, that SEZs are a new thing and that it is entirely understandable that problems should crop up during our advance. In my conversation with you today, I'll lay the problems out for you so you can see where we fall short." Liang Xiang likes to get right to the point and save time.

Liang believes that stable economic growth can be promoted only by conscientiously considering problems from the standpoints of both need and feasibility, by looking both ahead and behind and by maintaining appropriate growth rates. Shenzhen's main problems during the last 2 years have been that macroscopic control over growth rates has not been strict enough, there has been too much capital construction, the mix of investment has been irrational, systemic reform has not been properly coordinated, management work has not kept pace and economic results are not ideal.

In general, however, the rise of Shenzhen is a great event, and conditions have always been good in terms of economic growth, the steady improvement in the investment environment and the introduction of foreign capital. Last year Shenzhen continued to place emphasis on production in the new districts of

Luohu and Shangbu and on such infrastructural support projects as residential services and public utilities, completing 3-plus million square meters in building space. Much work has also been done to increase energy supply and to improve transportation and telecommunications.

Liang stated that the Shenzhen SEZ has raised the slogans of controlling the amount of capital construction, ensuring production and seeking results precisely in order to do a better job of carrying out reform and of opening up the SEZ and to build up reserve strength so as to accelerate growth in the next few years and is not seeking momentary pleasure or short-term gains. Yet some people have claimed that "SEZs can't be sustained as they are and must be reduced in size." This view is completely mistaken, said Liang, stressing that "the general guiding ideology of the Shenzhen SEZ calls not for a contraction but an expansion. Whatever the circumstances, we will never be shaken from this view."

"Many economic theorists believe that Shenzhen should develop a primarily industrial, export-oriented economy. What is your view?" I ventured to interject.

"People at all levels have put much effort into studying and determining the development strategy for Shenzhen, and our guiding principles have always been clear: We must create an export-oriented economy and promote economic prosperity in the zone. The problem is that we must conscientiously organize and devote great effort to implementing this policy."

Liang described the measures that have been adopted in this area. First, the SEZ has adhered the the principles of "light, small, sophisticated and new" and has selectively developed traditional industries that employ advanced technology and equipment, that require little investment but produce rapid results and that earn much foreign exchange, such as light industry, textiles, building materials, food processing, precision machinery and petrochemicals. The SEZ has also employed such linkages as "industry-trade-technology" and "trade-industry-agriculture" to unite the forces of production, circulation and technology; has striven to improve the quality of existing products; and has vigorously developed new products and opened new markets. In accordance with demand on the Hong Kong and international markets, the SEZ has formulated policies granting preferential treatment to, and encouraging the production of, exports that are high grade, of good quality and in great demand and short supply. Second, the SEZ has had to be more selective in, and more closely link, its import work and its cooperation with units in the interior. By holding investment talks, discussion meetings and international trade fairs, the SEZ has vigorously brought in foreign capital and advanced technology and has aggressively developed new industry. At the same time, the SEZ has also relied upon the industrial forces of the interior, linked the strengths and advantages of the zone and of its hinterland industrial base, and enhanced the zone's attraction and product competitiveness. In its efforts to link import work and cooperation with the interior, the zone must effect a unified system of approval, prevent overlapping authority in this regard, avoid redundant imports and ensure that import work and cooperation with the interior are properly integrated.

Liang made a special effort to address and explain the following problem. Some people have claimed that Shenzhen has not initiated much industry in the past few years and that what industry the zone did start is the type that quickly becomes outdated. "I can truthfully tell my friends in the news media that such is not in fact the case. As everyone knows, Shenzhen used to be a small town belonging to Baoan County and had almost no industry at all. After the SEZ was established, the Shekou, Shangbu and Bagualing industrial zones were gradually created, and the Shahe, Shuibei, Liantang and Nantou industrial zones are now being formed. In each of the last 6 years, an average of more than 100 factories went into production, and the SEZ now produces 800-plus industrial goods itself. Last year, the mix of industrial goods underwent a change, with the ratio of industrial exports assembled from imported materials declining and the share of locally produced goods rising, and to date over 400 industrial goods have broken into the international market. Last year, industrial output totaled 2.67 billion yuan, and exports of local products reached $300 million."

It seemed that Liang had much more he wanted to say, and one thing he did state was that Shenzhen needs support and understanding. "Shenzhen is a 'window' that allows people on the inside to look out and people on the outside to look in. I believe that now that this 'window' has been opened it will not be closed again. As a leader of an SEZ, I once did not properly understand the causes of the problems involved in SEZ development and production, lacked experience and suffered from bureaucratism. Insufficient understanding must be overcome through practice and gradual deepening of awareness. Inexperience must be resolved through the summarization of experience during practice. And bureaucratism must corrected speedily and resolutely. During the Seventh 5-Year Plan, Shenzhen will open up and prosper even more. I hope you will believe that." That is how candidly and firmly Liang Xiang speaks.

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CSO: 4006/973

SHENZHEN'S DEVELOPMENT PROSPECTS ASSESSED

Shanghai WEN HUI BAO in Chinese 2 Jul 86 p 1

[Special dispatch from Shenzhen on 1 Jul by reporter Zhong Xizhi on interview with Li Hao, vice governor of Guangdong Province: "Shenzhen's Intensive Development Climbs Toward an Export Orientation; Shenzhen SEZ Relies on and Serves the Interior and the Whole Country; Li Hao [2621 3493] Answers Our Reporter's Questions on Shenzhen's Development Prospects and More"]

[Text] Li Hao, vice governor of Guangdong Province, secretary of the Shenzhen municipal party committee, and mayor of the city, a few days ago gave exclusive answers to questions posed by this reporter regarding development prospects for the Shenzhen SEZ and other subjects.

[Question] It is being said now that "Shenzhen is no longer hot," and "Shenzhen is in a slump." Please give us your view of this.

[Answer] Those of us working in Shenzhen do not have any concept of Shenzhen being "hot." Leading comrades in the central government view it as positive that after completion of the Shenzhen SEZ many people came from around the country to visit it, and a good many people came to earn a living. In terms of Shenzhen itself, the growth in capital construction was somewhat rapid. We are now following central-government plans in cutting back on the scale of capital construction and moving toward intensive development, climbing toward an export-oriented economy, the number of people coming to Shenzhen to work has declined somewhat, and tourism has slacked off correspondingly. Those who were saying that Shenzhen was "hot" were not seeing the whole picture. In short, I'm in favor of less talk and more action. To say this that Shenzhen is "in a slump" does not entirely accord with reality. What should be said is that Shenzhen is now passing from a stage of initial creation and foundation-building toward one of new development and progress.

The creation of the Shenzhen SEZ has been a great success. Not long ago some people from the graduate school of Stanford University in the United States came to Shenzhen; they felt that Shenzhen has one of the best investment climates in Asia. In just a few short years we turned a little town of 20,000 or 30,000 people into a city of more than 400,000, constructed an investment climate attracting foreign investors, and created an industrial system with an annual output value of more than 2.6 billion yuan, and that was not easy. The national investment in the first-phase project for Shanghai's Baoshan Iron and Steel Complex was 12 billion; Shenzhen relied primarily on locally raised funds and foreign investment totaling 6 billion, half of the Baoshan investment; we could have gotten two Shenzhens for one Baoshan. Of course both approaches are necessary, and both are the result of the reforms opening things up.

[Question] During construction of the Shenzhen Zone a number of conflicts arose; could you discuss their causes?

[Answer] In my view there are three causes. The first is that any great step forward necessarily produces conflicts. It's like war; when a large unit charges forward, the troops necessarily do not all participate equally. The cavalry rushes on ahead, and the infantry can't keep up, so their formations are disorderly; this is easy to imagine. We are now finding that management, facilities, and personnel quality are incomplete and uncoordinated, and that is this kind of problem. The second cause is inadequate experience. Even though lines and policies are quite correct and the approach is practical and realistic, mistakes may occur due to a lack of experience. In joint ventures involving foreign investment, for example, project selection and the signing of contracts may not follow the principle of equality and mutual benefit, and so on. We should make every effort to make fewer mistakes, but demanding that there be no suffering or not even a few mistakes made is unfeasible. The third cause is the inadequate level and quality of personnel; if the guiding professional ideology is not correct, problems may arise with subjective guidance. For example, in 1 year Hong Kong had nearly 4 million tourists, and they built new hotels with more than 40,000 beds. In recent years we in Shenzhen have added more than 20,000 moderately high-class beds; if we add in the reception centers of the various units, there are already more than 40,000 beds, so clearly we have built too many hotels. My own opinion is that the first two are the main ones causing the problems. But regardless of the cause, we should certainly pay close attention to learning from our experience.

[Question] How do you evaluate Shenzhen's present situation and prospects for development?

[Answer] Beginning in April this year, Shenzhen's industry started to increase, imports started to flourish, and agriculture has been consistently good. It is just that business turnover has not yet risen, and this is not a cause for concern. The scale of capital construction in Shenzhen has now been brought under control; however, I do feel that projects yielding good results and capable of generating foreign exchange can be increased somewhat. In its construction Shenzhen has already gotten past the most difficult stage, and it can follow the path of further development.

It's usually like this: while several crises are sneaking up on us, people are still exuberant; but while the causes of potential growth are taking shape, people haven't yet taken notice.

As for the future of the Shenzhen SEZ, we have never harbored any doubts. There are many stages in our achieving the strategic goals of modernization. An area is needed to serve as the test site for reforms aimed at opening up the economy, to serve as a forward base for China's relations with the international market, and a base for testing the integration of two different social systems and two different economic systems. Because of its special conditions, Shenzhen fulfills this need. Shenzhen has furnished a practice field for playing basketball according to international rules. If our experiment succeeds, it will be good both for China's learning modern management and for the development of international contacts.

[Question] What sort of normal relations should the Shenzhen Special Economic Zone establish with the interior?

[Answer] Shenzhen's links to the interior have always been clear. That is, "Relying on and serving the interior; relying on and serving the whole country." The country thus supports and makes use of Shenzhen. The Shenzhen SEZ was established not solely in accordance with Shenzhen's own needs but also according to the needs of the country's overall goal of the four modernizations. If it is separated from the support of the interior, construction of the zone cannot be complete; if it is divorced from serving the whole country, Shenzhen construction will lose site of its objective. In the last few years, improper guiding ideology in certain enterprises has put holes in reform; this will not be able to happen again in the future if regional price-differential profitmaking is utilized. But Shenzhen's commerce, service industry, and tertiary industries must continue to grow; they must serve export-oriented industry and the creation of a better investment climate, while at the same time serving the economic development of the entire country.

13322/12948
CSO: 4006/1210

OBSTACLES TO FURTHER GROWTH IN SPECIAL ECONOMIC ZONES

Hong Kong WEN WEI PO in Chinese 3 Jul 86 p 7

[Unattributed dispatch from Beijing: "China's SEZ's in a Difficult Uphill Climb; Shenzhen's Growth Rate Now Slowed"]

[Text] [Editor's Note] The Shanzhen, Zhuhai, Shantou, and Xiamen SEZ's are now moving into a second phase of development, with "an export-oriented economy combining industry and trade, with industry dominant"; but funds are tight, there is inadequate foreign exchange, and there are major obstacles to progress. [End Editor's Note]

Tremendous publicity was given to the slowdown in Shenzhen's rate of growth, and now China's SEZ's are moving into a new phase of development and starting a difficult uphill climb.

Shenzhen, Zhuhai, Shantou, and Xiamen, the four SEZ's serving as the mainland's windows in its opening up to the outside, have achieved attention-grabbing results in the more than 5 years since they were created. The visiting businesmen who have come in droves from Hong Kong, Macao, and abroad to invest $1.17 billion in these zones, corresponding to one-fifth the total foreign investment taken in by the mainland during the same period, are evidence of these results.

Following state requirements, these SEZ's are now moving from the first phase of basic construction into a second phase of development, the establishment of "an export-oriented economy combining industry and trade, with industry dominant." State Councellor Gu Mu refers to this change as "Climbing a hill, going upstairs."

There are major obstacles to this new process. The first is the short supply of funds. The excessively inflated scale of construction in these zones in the last 2 years has exceeded the capacity of funds to support this growth, and the bank loan balance far exceeds the allowed limits. For these reasons these zones are forced to continue cutting back on the scale of construction as they change direction, so as to focus funds on developing export-oriented industry. Shenzhen has now sent out notices to halt or slow down construction on 84 projects involving a total investment of 2.1 billion yuan; Zhuhai is reducing the scale of its capital construction this year from over 1.5 billion yuan to somewhat more than 650 million yuan.

Maintaining a balance of foreign exchange is another difficulty facing the SEZ's. Among these zones, only in Shantou do exports of industrial goods account for more than 60 percent of total exports last year; in all the other zones the figure was less than half. In order to bring in more foreign exchange, the zones are now making an effort to adjust their industrial structure, primarily by limiting growth of hotels, restaurants, and office space, which have already been overbuilt, and by supporting industries offering advanced technology and products that can be better sold abroad.

Strict control over foreign trade by government agencies has also posed quandaries for the SEZ's as they change direction. Due to the overall imposition of a system of import-export balances and permits on the several hundred enterprises consisting of Sino-foreign joint and cooperative ventures and foreign investments in the zones, inconveniences have been multiplied; add to this the blocked domestic markets, and the result is that quite a few of these enterprises are producing sluggishly.

Although these struggling SEZ's have slowed their rate of growth, they have not come to a standstill. Due to the effective control of the scale of capital construction, the tightly wound economies of these zones have been loosened. In Shenzhen, the bank loan balance as of May had been reduced by more than 510 million yuan from the start of the year, and the rate of increase in industrial output value had been restored to over 4 percent; foreign exchange income increased 16 percent over the same period last year.

Nor have foreign, Hong Kong, and Macao investors lost confidence in the SEZ's. Each day more than 30,000 businessmen come to Shenzhen to make deals. In Xiamen's Huli industrial park the common-use factory building, which had stood empty, had been leased out by March.

The problems facing the SEZ's have attracted the attention of Chinese leaders. Deng Xiaoping has stated that the nation's policy is to ease up rather than to rein in. In accordance with President Zhao Ziyang's suggestion, the pertinent departments are now studying policies to improve the climate for joint ventures, concentrating on implementing a number of special policies for the zones, and drafting regulations of a legal nature for them. All these actions will mean that the SEZ's, having reached a turning point, can hope for better time in the future.

13322/12948
CSO: 4006/1210

SPECIAL ECONOMIC ZONES

OLD IDEAS BLAMED FOR SLOWNESS IN OPENING UP FUJIAN

OW112357 Beijing XINHUA in English 1505 GMT 11 Sep 86

[Text] Xiamen, 11 September (XINHUA)--Old concepts, especially feudalist ideas, have hindered Fujian's opening to the outside world, said a top official of the province.

Fujian's efforts to open the Xiamen special economic zone and the South Fujian Xiamen-Zhangzhou-Quanzhou triangle area are not satisfactory, compared with similar zones elsewhere, said Cheng Guangyi, secretary of the Fujian Provincial Communist Party Committee, at a meeting of the province's opening work which closed here today.

Cheng said Fujian has not carried out the open policy flexibly, and has not attracted as much foreign investment as possible by taking advantage of its favorable position. Cheng owed the low speed of opening to the feudalist ideas and conventions, such as "fears of capitalism" and self-conceit for being self-sufficient, which are incompatible with the present open and reform policy.

Cheng called for the fostering of new concepts, including being ready to accept new ideas from the outside world, doing things according to economic rules and encouraging competition. Any new method which can bring wealth to the state and people or facilitate the implementation of the open policy should be given a chance, he said.

The Xiamen special economic zone was set up in 1981, and the South Fujian triangle linking Xiamen, Zhangzhou and Quanzhou was developed later.

During the Sixth 5-Year Plan (1981-1985), the agricultural and industrial output value of the triangle area rose by 85 percent. It has attracted 227 million U.S. dollars' investment from overseas.

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CSO: 4020/005

WANG WEI REPORT ON FAMILY PLANNING WORK

Beijing RENKOU YU JINGJI [POPULATION AND ECONOMICS] in Chinese No 2, 25 Apr 86 pp 3-10

[Article by Wang Wei [3769 0251]: "Report to the CPC Party School on 15 November 1985"]

[Excerpts] II. Situation and Experience of Family Planning During the 6th 5-Year Plan

The period 1981 to 1985 was very important for family planning in China because during these 5 years, guided by the 3d Plenum of the 11th CPC Central Committee, family planning entered a new stage and gradually shifted onto a healthier path. We have gained rich experience and made great achievements in family planning work. We can say that with China's total population at 1.06 billion at the end of the 6th 5-Year Plan and the natural increase of the population held down to 13 per 1,000 or less, the plan has been fulfilled.

During the first 2 years of the 6th 5-Year Plan, 1981 and 1982, the rate of population growth increased after several consecutive years of decline. The population plan for those 2 years was not fulfilled. In 1980, the population growth rate was 11.87 per 1,000; in 1981 and 1982 it climbed back up to 14.55 and 14.49 per 1,000. The population growth rate climbed during those 2 years because late marriage was stressed more before 1980 and people who had been born during the years of high birth rates between 1950 and 1957 were in their peak years for marriage and having children. The second reason is that with the promulgation of the New Marriage Law in 1981 the late marriage rate dropped as many young people got married during those 2 years. The third reason is that rapid changes in the rural economic system outpaced family planning work. Thus in several areas nobody paid attention to family planning; births were completely unregulated.

During 1983-1985, the last 3 years of the 6th 5-Year Plan, the population growth rate declined rapidly. The rate of natural population increase in 1983 was 11.54 per 1,000; in 1984, 10.81 per 1,000; and in 1985 it is estimated to be 11 per 1,000. The population planning targets for these 3 years have been or can be completed. Family planning succeeded in the last 3 years by summarizing previous experience, giving clearer ideological guidance, strengthening leadership, and working harder. In addition, the age cohorts now marrying and having children were born during 1958-1961, when fertility was low. Age cohorts born during the years of peak fertility in the 1950's have already passed their years of peak fertility.

During the 6th 5-Year Plan the population of China rose from 987,050,000 at the end of 1980 to 1,034,750,000 in 1984 and will reach an estimated 1,046,000,000 at the end of 1985. This is a net increase of 58,950,000 people, an annual average increase of 11,750,000, and an average annual rate of increase of 11.67 per 1,000. Accordingly, we believe that we have already safely passed the periodic effect of the first post-liberation fertility peak without creating a new fertility peak. The forces making the population grow too quickly have been controlled; we are gradually moving along the path of the planned development. This is not only very important to the socialist modernization of China and economic prosperity, it has also created favorable conditions for the cyclic reproduction of the population.

During the 6th 5-Year Plan we gained rich experiences in population and family planning work. There are two basic lessons.

First, our country must practice family planning. The CPC Central Committee has issued several clear directives on this subject. There are clear directives and requirements on the strict control of population growth in both the 6th 5-Year Plan and in the annual plans. The CPC Central Committee has clearly stated that we should fight fiercely to quadruple the GVIAO by the end of the century, to give the people a decent standard of living while controlling the total population of China at about 1.2 billion. Integrating the development of the population and of the economy on both the theoretial and the practical levels is an important advance. The experience of the 6th 5-Year Plan proves that when we are considering the construction of the economy we must at the same time consider population. When planning economic construction and every sort of social enterprise we must consider simultaneously the size of the population and its growth rate. The two must be done simultaneously; the two kinds of production must be grasped together. In recent years the Chinese economy has grown fairly rapidly; some comrades think that because of this having more children will not make any difference. These comrades are only considering the fact that a few more children will not affect the achievement of a decent standard of living and have not realized that we need to create an appropriate size population and age structure as the foundation for prosperity in the next century. Deng Xiaoping has said many times that achieving a decent standard of living by the end of the century is only the first step. The second step is building on that achievement for another 30 to 50 years to approach the level of the advanced countries. When considering the population problem, we should determine what will promote the development of the economy at each stage. We must not allow the population to increase; we must not maintain the young type age structure since this will not be advantageous to economic growth in the next century. Thus, we must not waver in family planning and in strictly controlling population growth for a long time to come. This is experience gained over more than 30 years and especially during the 6th 5-Year Plan.

Second, we should do family planning work in the spirit of Document No 7 of the Central Committee. We must practice family planning; but learning just how to do family planning and what is good family planning is a process of discovery. Although family planning began in the 1970's, it has only been implemented among all the nationalities of the entire nation since the 3d Plenum of the 11th CPC Central Committee. During the 6th 5-Year Plan all levels of the CPC stressed the importance of family planning work. In 1984, the CPC Central Committee formulated Document No 7, which is based on a summary of the lessons of history and an analysis of the actual population situation. It is a very important document.

The spirit of Document No 7 has three principles--serve the overall good, seek truth from the facts, and the mass line. This is the fundamental ideology which guides us so that we will do family planning work well.

Serving the whole is the starting point and the end of our department's work. At the end of this century we will realize the socialist four modernizations, the GVIAO will quadruple, the per capita gross domestic product will reach $800 to $1,000. The people will attain a decent standard of living and the population will be controlled at about 1.2 billion people. In the middle of the 21st century, China's economic development will approach the level of the advanced countries--this is what we mean by taking the country's total well-being into consideration. Family planning must be subsidiary to, and serve this concept. We must constantly improve our work in order to adjust to the development of the whole country. If we only consider part of the situation and not the whole, problems and shortcomings will appear in many different aspects of our work.

Seeking truth from the facts means beginning with the practical in all things. This is the ideological line of the CPC. The economy and culture in China are still undeveloped. When considering the problems of overpopulation, 80 percent of the population in the countryside, the extreme imbalance of the population, China's population structure, the qualifications of the people, China's resources, the desire of the Chinese people for children, the structure of China's cadres, experience, etc., we must always think about practical matters. In these matters the situation in various areas is different. We must start out with the facts and not "cut everything in one fell swoop." We must consider cultural values and the opinion of the people. Policies on fertility differ in different places, in the city and the countryside, and are different for the minority nationalities and for the Han Chinese because the concrete conditions vary in different areas.

The mass line or serving the people is our one great overarching principle. Family planning is a task which aims at improving the well-being of the state, the people, and the nationalities. It affects everyone. In our work we must trust the people, rely on the people, and follow the mass line. In the past, we gave much thought to controlling the fertility of the people and little thought to serving them. After the promulgation of Document No 7 some comrades were afraid of what the masses would think, afraid that once this small opening in the policy had appeared the masses would have more children and afraid that once the policy changed the masses would try to make up for lost time. Once Document No 7 had spread far and wide the masses said happily: Document No 1 of the Central Committee is a policy which enriches the people; Document No 7 is a policy which cherishes the people. The misgivings of the cadres evaporated. During the 6th 5-Year Plan ideological education, links with the people, and work to serve the people were all strengthened. This is a further advance in the thorough implementation of serving the people in family planning work.

These three points are summarized in implementing the humane and rational line that Hu Yaobang speaks of. Humane and rational is acting according to the accepted code of human conduct of the state and the people. We should work according to the directives of the Central Committee and according to the advantage of the state and the people. We should act according to objective rules.

First, we should implement family planning; second, we should implement family planning in the spirit of Document No 7. These two experiences were obtained through the practice of tens of millions of cadres and of the masses. We must not forget these experiences; we must broadcast them and expand upon them.

III. Family Planning Work During the 7th 5-Year Plan

In September 1985 the CPC National People's Congress stated unequivocally that the 5 years of the 7th 5-Year Plan are very important. During the 7th 5-Year Plan we should complete basic reforms so that the economy will continue to develop in a stable and harmonious manner. This will create a good foundation for achieving the goals for the end of the century set by the 12th CPC Congress. We must serve the whole and focus our attention on the overall task, the overall goal, the overall demands, and the overall policy the Central Committee has set for us. During the 7th 5-Year Plan we must continue to stress doing family planning work well.

The 7th 5-Year Plan will be a period of peak fertility. We must adopt appropriate policies to control the new peak in the fertility of the population. China's population has two distinctive characteristics aside from its great size. One of these is the youthful age structure of the population. A population is generally considered to be youthful when the proportion of children aged 14 and under is more than 40 percent of the population and when the elderly population aged 65 or over make up less than 5 percent of the population. In 1982, 33.6 percent of the Chinese population were children while elderly people were just 4.9 percent. This shows that China's population will continue to grow in the decades to come. The second distinctive characteristic of the Chinese population is that China is confronting a 10-year-long peak in fertility. During the 14 years between 1962 and 1974, 25.8 million children were born annually in China, with the peak of more than 29 million coming in 1963. Beginning in 1986 this group of people will reach 24, the peak age for marriage and fertility. If each couple has only one child there will be more than 12 million births annually. If we add the second child, "opening a small door," the number of second and later unplanned children born each year will be even greater. With this trend in mind the Central Committee in suggestions for the 7th 5-Year Plan stated, "We must be unwavering in controlling population growth," "We must place greater value on family planning work, stress it continually, and fight fiercely to restrict the average annual growth rate of the population to about 12.5 per 1,000." The outlook for population growth during the 7th 5-Year Plan is grim. We are facing a peak in fertility at a time when family planning policy should be reformed. The development of family planning work is seriously imbalanced. There are still many weak links which make our task even more difficult. These problems are not as they were during the 6th 5-Year Plan but we must take them seriously and endeavor to do a good job during these 5 years in order to reduce the pressure in the last decade of this century.

During the 7th 5-Year Plan, we will encourage each couple to have only one child and allow for couples with serious difficulties to have two children. We will forbid second children not allowed under the plan as well as third and later children. Some comrades who always encouraged couples to have only one child neglected to show concern for those couples who had two children. Now they are always saying that the policy has been revised and they forget to encourage couples to have only one child. We must state unequivocally that the decision of the Central Committee in 1979 to encourage couples to have only one child was completely correct and has played a major role in controlling the growth of China's population and in changing the old ideas of the masses about fertility. Currently most young couples in the cities and a large proportion of the young couples in the countryside have responded to the call to have just one child. Of the 150 million married women of reproductive age in China, 28 million, or 18.25 percent, have had one child and received a certificate to prove that they have only one child. Surveys of reproductive intentions in the countryside have shown that over 10 percent of the couples there plan to have only one child. Therefore we should continue working vigorously to promote this policy. We should not emphasize some aspects of our work to the exclusion of others or deal in absolutes. In areas where there are many unplanned births, we should strengthen ideological education, economic restrictions, administrative measures, technical services, well-baby medical care, care for the elderly, rectify incorrect styles of work, etc., so that fertility will be planned.

Controlling population growth during the 7th 5-Year Plan will be very difficult. Every level of the Family Planning Department should correctly analyze the situation. They should consider what has been achieved, successful experiences, favorable conditions, the unfavorable development of the population picture during the 7th 5-Year Plan, the higher demands that the party and the people are making of us, our shortcomings and our problems. We should prepare ourselves both ideologically and organizationally. Every level of the Family Planning Department should strengthen its leadership, conscientiously guide work, watch changes in the population closely, discover problems in time, solve problems, strengthen weak links, and family planning work in areas where it is weak. They should look to the grassroots to initiate and consolidate work there.

During the 7th 5-Year Plan, we will continue to seek a distinctively Chinese road to family planning. In the past few years under the leadership of the CPC Central Committee on every battlefront, every nationality has been bravely and creatively searching for a distinctively Chinese brand of socialism. The CPC National People's Congress has made the construction of a distinctively Chinese brand of socialism its overriding demand. The congress asks us plainly to struggle to lay the foundation for a distinctively Chinese socialist economic system one of the main goals of the 7th 5-Year Plan. Our Family Planning Department should orient itself by this overriding demand and objective of the struggle, improve our work, and continue to seek a distinctively Chinese brand of family planning work.

China is a socialist country; in family planning it must uphold the Four Basic Principles and under the guidance of these principles develop and enrich the content of Chinese family planning. Since the 3d Plenum of the 11th CPC Central Committee, from the documents issued by the Central Committee and the statements of some of the leading comrades of the central leadership on population problem and family planning, from the creative practice of tens of millions of Chinese people, including the results of workers in demography, a few outstanding points of a distinctively Chinese brand of socialist family planning can already be discerned.

12,369/9599
CSO: 4006/1252

EARLY REPORT ON FIRST COMPLETE FERTILITY SURVEY

Beijing RENKOU YANJIU [POPULATION RESEARCH] in Chinese 29 May 86 pp 8-15

[Article by State Statistical Bureau Population Statistics Department]

[Excerpts] Part III. Fertility and Infant Mortality

A. The decline in average fertility each year reflects the achievements of family planning policy. The average numbers of children born to married women in Hebei Province, Shaanxi Province, and Shanghai Municipality who agreed to be surveyed are 2.45, 2.80 and 1.54. The number of children born to women in each age group is shown by the chart below:

Average Number of Children Born to Women by Their Age Group

Age Group	Hebei	Shaanxi	Shanghai
Totals	2.45	2.80	1.54
15 - 19	0.34	0.26	-
20 - 24	0.69	0.81	0.67
25 - 29	1.45	1.67	0.89
30 - 34	2.21	2.43	1.24
35 - 39	2.94	3.52	1.66
40 - 44	3.85	4.30	2.29
45 - 49	4.46	4.94	2.76

The women in the 45 to 49 and 40 to 44 age groups have basically stopped having children: their statistics can be considered their lifetime fertility. Fewer children were born to women in the 40 to 44 age group, who had their peak fertility in the late 60's, than to women in the 45 to 49 age group, who had their peak fertility in the early 60's. The average number of children born to women in these two age groups in Hebei declined 14 percent from 4.46 to 3.85; in Shaanxi down 13 percent from 4.94 to 4.30; and in Shanghai down 17 percent from 2.76 to 2.29.

According to the three tables "The Distribution of Women According to the Number of Their Children" women in the Shanghai Municipality in the 45 to 49 age group who have had two or two or more children comprised 90 percent of the group; in the 40 to 44, 35 to 39, and 30 to 34 female age groups the number who have two or two or more children gradually declined to 84, 58, and 25 percent, respectively. However the proportion of women in the 25 to 29 and 20 to 24 age groups who have two or two or more children declined still further to 5 percent and i percent. The table also shows that the peak number of children is 3 for the 45 to 49 age group; for the 40 to 44 and 35 to 39 age groups it is 2; and for the 30 to 34 age group it has declined to 1. More than 70 percent of the women in the 30 to 34 age group had only 1 child. Although the women in the relatively young age groups still have not finished having children the trend shows us that the specific policy promoted by the government "one child for each couple" has been implemented very thoroughly in Shanghai and that traditional views on fertility have clearly changed. See the table below:

The Distribution of Women by the Number of Their Children in Shanghai Municipality

Age Group	Number of Children 0	1	2	3	4	5	6	Total
Totals	322	2.103	1.091	459	128	33	7	4.143
15-19	1	-	-	-	-	-	-	1
20-24	58	112	2	-	-	-	-	172
25-29	166	806	48	3	-	-	-	1,023
30-34	42	756	239	26	1	-	-	1,064
35-39	25	321	389	76	7	-	-	818
40-44	15	73	257	163	34	7	3	552
45-49	15	35	156	191	86	26	4	513

The Distribution of Women by the Number of Their Children in Hebei Province

Age Group	Number of Children 0	1	2	3	4	5	6	7	8	9	10	Total
Totals	348	1,164	1,440	988	603	301	147	66	21	1	1	5,080
15-19	23	12	-	-	-	-	-	-	-	-	-	35
20-24	205	282	42	-	-	-	-	-	-	-	-	529
25-29	71	570	428	59	8	2	-	-	-	-	-	1,138
30-34	19	242	590	339	72	20	3	-	-	-	-	1,285
35-39	13	37	267	347	184	47	11	1	1	1	-	909
40-44	8	11	73	152	184	109	49	14	5	-	1	606
45-49	9	10	40	91	155	123	84	51	15	-	-	578

More than 47 percent of the married women in the 45 to 49 age group of Hebei had 5 or 5 or more children; in the 40 to 44 and the 35 to 39 age groups the proportion of women who had 5 or 5 or more children had dropped to 29 and 6 percent, respectively. The peak value for the 45 to 49 and 40 to 44 age groups is 4; for the 35 to 39 age group it falls to 3; for the 30 to 34 age group it falls again to 2; and for the 25 to 29 age group it has fallen to

1. These figures reflect the clear effect of family planning work in reducing the average fertility of women in Hebei. See the table above.

In the 45 to 49 age group of married women in Shaanxi 34 percent have 6 or 6 or more children; in the 40 to 44 age group the proportion of women who have 6 or 6 or more children declines to 21 percent; in the 35 to 39 age group the proportion falls again to 6 percent. The peak value for women in the 45 to 49 age group is 5; in the 40 to 44 age group it is 4; in the 35 to 39 age group it falls to 3; in the 30 to 34 and the 25 to 29 age groups it falls again to 2; and in the 20 to 24 age group the peak value has fallen to 1. This reflects the fact that the number of children being born to women in Shaanxi is also gradually declining. The idea held by the people there for thousands of years that the more children the better is gradually changing. See the table below.

The Distribution of Women by the Number of Their Children in
Shaanxi Province

Age	Number of Children													
Group	0	1	2	3	4	5	6	7	8	9	10	11	12	Total
Totals	323	772	944	762	559	369	192	92	40	20	8	1	2	4,084
15-19	34	12	-	-	-	-	-	-	-	-	-	-	-	46
20-24	194	269	67	11	-	-	-	-	-	-	-	-	-	541
25-29	54	332	343	100	19	4	2	-	-	-	-	-	-	854
30-34	11	127	357	240	93	21	8	-	-	-	-	-	-	857
35-39	15	10	116	217	187	95	26	13	3	3	-	-	-	685
40-44	11	12	30	126	158	120	78	30	8	7	1	-	-	581
45-49	4	10	31	68	102	129	78	49	29	10	7	1	2	520

The Shanghai statistics show that 97 percent of the women in their first marriage in the 40 to 49 age group, which had its years of peak fertility during the 1960's, had at least 1 child. Among women who had at least 1 child 90 percent had 2 children or more; among those who had at least 2 children slightly less than half had 3 or more children. The rapid decline in the progressive ratios of number of children shows that Shanghai began birth control early. However among the women of Hebei and of Shaanxi who had 2 or more children, 90 and 94 percent of them, respectively, had at least 3 children; among women who had at least 3 children, 76 and 81 percent, respectively, had at least 4 children; among women who have had at least 4 children, 57 and 68 percent, respectively, had at least 5 children; and among those who had had at least 5 children just about half have 6 or more children. This shows that there is less birth control there than in Shanghai.

Ratio of Women Aged 40 to 49 Who Have a Certain
Number of Children or More

Region	Ratio Having a Certain Number of Children												
	0	1	2	3	4	5	6	7	8	9	10	11	12
Hebei	99	98	90	76	57	49	39	24	5	-	-	-	-
Shaanxi	99	98	94	81	68	55	48	45	43	39	27	-	-
Shanghai	97	90	55	31	25	18	-	-	-	-	-	-	-

D. The gradual decline in infant mortality reflects higher levels of medical treatment and sanitation. Among the women who agreed to be surveyed, the average number of children born to married women of reproductive age in Hebei was 2.45; of these an average of 2.31 children were still living at the time of the survey. This means that 0.14 children died after birth for a mortality of 5.714 percent. In Shaanxi women who were surveyed had an average of 2.8 children, of whom 2.53 were still living. Thus, 0.27 children died after birth for a mortality of 9.643 percent. The women surveyed in Shanghai had had an average of 1.54 children, of whom an average of 1.48 were still living, for a loss of 0.06 children, and a mortality of 3.896 percent.

E. The age at the birth of the first children was delayed and the proportion of women who had their first child at age 22 or earlier declined considerably. However in the 1980's the age at the birth of the first child went back up again. Age at the birth of the first child is a good index of family planning policy's implementation and population control. The survey shows that in the 30 years since the founding of the PRC the age at first birth has been pushed up considerably. Among the women of the 45 to 49 age group of Hebei, Shaanxi, and Shanghai who entered their fertile period during the 1950's the proportion who had their first child at age 22 or earlier is 51, 67.6, and 43.8 percent, respectively; the proportion who had their first child at age 20 or earlier is 29.2, 43.8, and 23.3 percent, respectively.

The proportion declined gradually; the proportion of women in the 25 to 29 age group who had a child at age 22 or earlier is 13.7, 23.3 and 2 percent, respectively; and the proportion who had a child at age 20 or earlier is 3.1, 7.6, 0.2 percent, respectively. The proportion of women who have children early is already a small minority. However the survey shows that in the 20 to 24 age group, which entered its fertile years in the 1980's, the proportion of women who had their first child early has risen again. In Shanghai, the proportion who had their first child at age 22 or earlier rose from 2 percent back up to 4.8 percent; in Hebei from 13.7 percent back up to 18.5 percent and in Shaanxi from 23.3 percent rising back up to 24.8 percent. See the table below:

Percentages of Women in Two Provinces and One Municipality
Who Had Their First Child by a Certain Age

Age Group	First Child 20 or Earlier			First Child 22 or Earlier			No Child by Age 30		
	Hebei	Shaanxi	Shanghai	Hebei	Shaanxi	Shanghai	Hebei	Shaanxi	Shanghai
20-24	4.9	7.0	0.3	18.5	24.8	4.8	-	-	-
25-29	3.1	7.6	0.2	13.7	23.3	2.0	-	-	-
30-34	11.6	21.3	1.4	27.7	46.0	5.4	3.7	2.1	19.2
35-39	13.4	33.6	4.2	38.5	63.9	16.7	4.0	3.5	15.3
40-44	20.1	35.7	12.4	48.7	68.7	34.5	3.8	3.8	7.9
45-49	29.2	43.8	23.3	51.0	67.6	43.8	4.0	1.7	6.8

G. The median age of the mother at the birth of the first child has risen but not so quickly as the median age at first marriage. In the two provinces and one municipality as the age of the women surveyed declined the median age at the birth of the first child always rose. From the 45 to 49 age group of Hebei median age birth of first child of 21.8 years, the median age increases as the age of the age group decreases until the median age had risen to 24 years in the 25 to 29 age group, an increase of 2.2 years. In Shaanxi, the median age increases from 20.4 years for the 45 to 49 age group to 23.8 years for the 25 to 29 age group, an increase of 3.4 years. In Shanghai, the median age at the birth of the first child increases from 22.8 years for the 45 to 49 age group to 26.7 years for the 25 to 29 age group, an increase of 3.9 years.

However, due to the shortening of the interval between first marriage and the birth of the first child, the increase in the median age at the birth of the first child was greater than the median increase in age at first marriage. In Hebei Province, for example, the interval between first marriage and the birth of the first child is 2.4 years in the 45 to 49 age group and 2.3 years in the 40 to 44 age group, while the interval between age at first marriage and age at the birth of the first child was just 1.2 years for the 25 to 29 age group. In Hebei over the last 20 years, the median age at first marriage rose 3.4 years. The abbreviation of the interval between the first marriage and the birth of the first child reduced it to just 1.2 years and so the median age at the birth of the first child rose by just 2.2 years. This has to some extent reduced the positive effect of late marriage. Therefore, in the future we should emphasize propaganda encouraging people to have children later. The statistics from Shaanxi and Shanghai reveal a similar situation. See the table below:

Medium Age at Birth of First Child and the Interval
Between First Marriage and Birth of First Child

Age Group	Hebei Province			Shaanxi Province			Shanghai Municipality		
	Birth	First Marr.	Diff.	Birth	First Marr.	Diff.	Birth	First Marr.	Diff.
25-29	24.0	22.8	1.2	23.8	22.3	1.5	26.7	25.3	1.4
30-34	24.1	22.4	1.7	22.4	20.3	2.1	26.8	25.6	1.2
35-39	22.7	20.9	1.8	20.9	19.0	1.9	25.2	23.7	1.5
40-44	22.0	19.7	2.3	20.8	18.3	2.5	23.6	22.0	1.6
45-49	21.8	19.4	2.4	20.4	17.9	2.5	22.8	20.7	2.1

H. Birth Rate and Trends over the Last 10 Years

1. Over the last 10 years the overall birth rates in Shaanxi and in Hebei have been declining. The decline has been faster in Shaanxi. The overall birth rate in Shanghai has remained below the replacement level although it has been increasing slightly. The decline in Shaanxi's overall birth rate came late, declining from 3.24 in 1975 to 2.31 in 1984, a 0.93 or 28.7 percent drop. During these 10 years the highest birth rate was in 1975 and

the lowest was in 1980 when it fell to 2. The birth rate of Hebei has fluctuated slightly over the last 10 years. In 1981 and 1982 it rose to 2.95 and 3.02; in 1984 it fell to 2.37, 8 percent less than in 1975. The Shanghai overall birthrate rose slightly over the decade, with an average in the second half of the 1970's of 1.194 and 1.332 in the first half of the 1980's, coming back up to 11 percent. The lowest birthrate was 1.04 in 1975; the highest was 1.6 in 1982. In 1984 it fell again to 1.14.

Taking the age structure of reproductive age females in the 1982 population census as a denominator to normalize calculations of the birthrate, the overall trend and the overall birth rate are very similar. The normalized overall birth rate for Shaanxi fell from 10.7 percent in 1975 to 7.41 percent in 1984, declining 26.4 percent. In Hebei it declined from 7.93 percent in 1975 to 6.71 percent in 1984, a decline of 15.4 percent. There was a slight increase in Shanghai from 1.73 percent in 1975 to 1.87 percent in 1984, an increase of 0.8 percent. See the table below:

The Overall Birth Rate and the Normalized Birth Rate

Overall	Birth	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Rate	Hebei	2.58	2.59	2.39	2.61	2.61	2.55	2.95	3.02	2.41	2.37
(Units)	Hebei	3.24	2.795	2.65	2.405	2.66	2.0	2.315	2.315	2.34	2.31
	Shanghai	1.04	1.31	1.16	1.22	1.24	1.12	1.42	1.60	1.38	1.14
Normalized	Birth										
Rate	Hebei	7.93	8.23	7.44	8.26	8.25	8.00	9.04	8.98	7.21	6.71
Percent	Shaanxi	10.07	8.65	8.21	7.58	8.34	6.39	7.50	7.24	7.61	7.41
	Shanghai	1.73	2.14	1.91	1.97	2.05	1.875	2.32	2.60	2.25	1.87

2. The average age at the birth of the first child has declined over the last decade. Survey statistical data shows the normalized average age at the birth of the first child in Shaanxi declined by 1.3 years from 27.7 years in the second half of the 1970's to 26.4 in the first half of the 1980's. In Hebei it declined from 27.8 in the second half of the 1970's to 26.2 in the first half of the 1980's, a drop of 1.6 years. In Shanghai the average age dropped 0.2 years from 26.9 in the second half of the 1970's to 26.7 in the first half of the 1980's. See the table below:

Average Normalized Age at the Birth of the First Child (Sui)
in Two Provinces and One Municipality Over the Last Decade

Region	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Hebei	28.0	27.6	28.5	27.7	27.2	26.7	26.3	26.5	25.9	25.5
Shaanxi	27.7	27.7	27.8	27.7	27.5	26.6	26.9	26.5	26.2	26.0
Shanghai	26.4	26.5	27.1	27.5	27.1	27.3	26.6	26.4	26.4	26.8

The female age structure differentiated fertility 1975 to 1984 shows that the age of peak fertility has declined. From 1975 through 1981 the age of peak fertility was in the age 25 to 29 age group and fell into the 20 to 24 age group in 1982 and 1984. The age by which 90 percent of the children had been born was in the 35 to 39 age group during 1975 to 1978 but fell into the 30 to 34 age group in 1979 to 1984. See table below:

Fertility in Shaanxi Province by Age Group 1975 to 1984

Age Group	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
15-19	0.017	0.019	0.017	0.010	0.014	0.010	0.013	0.009	0.014	0.021
20-24	0.208	0.173	0.168	0.156	0.176	0.152	0.187	0.204	0.179	0.198
25-29	0.235	0.205	0.185	0.180	0.194	0.163	0.194	0.159	0.206	0.163
30-34	0.111	0.097	0.093	0.085	0.105	0.055	0.045	0.059	0.054	0.061
35-39	0.075	0.054	0.058	0.039	0.032	0.014	0.017	0.023	0.013	0.015
40-44	0.002	0.011	0.009	0.011	0.011	0.006	0.014	0.009	0.002	0.003
45-49	0	0	0	0	0	0	0	0	0	0.001

Hebei Province 1975 to 1984 fertility broken down by age shows that for the first 9 years of the decade peak fertility was in the 25-29 age group. It fell in the 20 to 24 age group in 1984. See the table below:

Fertility in Hebei Province by Age Group 1975-1984

Age Group	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
15-19	0.011	0.005	0.003	0.002	0.005	0.011	0.012	0.019	0.012	0.010
20-24	0.142	0.161	0.118	0.135	0.140	0.142	0.172	0.171	0.158	0.183
25-29	0.217	0.209	0.198	0.227	0.233	0.213	0.245	0.219	0.179	0.167
30-34	0.086	0.102	0.095	0.101	0.093	0.092	0.093	0.098	0.071	0.046
35-39	0.029	0.027	0.044	0.047	0.026	0.023	0.026	0.044	0.016	0.001
40-44	0.002	0.001	0.010	0.005	0.011	0.006	0.004	0.003	0.007	0
45-49	0	0	0	0	0	0	0	0	0	0

The 1975 to 1984 fertility in Shanghai Municipality by age group shows that the average fertility for the 20 to 24 age group in the last half of the seventies averaged 5.517 percent while it averaged 7.428 percent in the first half of the 1980's increasing by more than one-third. The increase in the age-differentiated fertility figures in the lower age groups also reflects lower ages at marriage and at the birth of the first child. See the table below:

Fertility in Shanghai Municipality by Age Group 1975 to 1984

Group	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
15-19	0	0.00046	0.00122	0	0.00046	0.00189	0.00050	0.00213	0.00174	0.00065
20-24	0.05812	0.07121	0.04705	0.04605	0.05344	0.04244	0.08100	0.10301	0.08616	0.05877
25-29	0.12381	0.14882	0.14224	0.13066	0.14464	0.12466	0.14979	0.16462	0.14222	0.12862
30-34	0.02474	0.03322	0.03223	0.05700	0.04647	0.04583	0.05130	0.04452	0.04475	0.03640
35-39	0.00203	0.00778	0.00962	0.00947	0.00368	0.00883	0.00170	0.00708	0.00216	0.00458
40-45	0	0	0	0	0	0	0	0	0	0
45-49	0	0	0	0	0	0	0	0	0	0

The fall in the average age when the first child was born caused an increase in fertility. Thus we must strengthen late marriage propaganda and educational work.

3. There has been widespread response to the call that each couple have only one child. However in Shaanxi and in Hebei one-fourth of all births are to mothers who already have children. From 1980 to the time of the survey, of 1,640 births in Shanghai 80.6 percent were first children. Out of 2,987 children born to women surveyed in Hebei during this time 46.8 percent were first children. In Shaanxi, 44.3 percent of 2,167 children were first children. This demonstrates that the one couple, one child policy the state is promoting is having an influence in the countryside. For third children and for third and later children in Shanghai, Hebei, and Shaanxi the statistics are 5.5, 24.2, and 27.2 percent, respectively. This shows that in Hebei and in Shaanxi the proportion of births to mothers with more than one child is still very great. See the table below:

Distribution of Live Born Infants in Hebei Province, Shaanxi Province and Shanghai Municipality by Order of Birth (in Percent)

Region	1st Child	2nd Child	3rd Child	4th or Later Child
Hebei	46.8	29.0	14.8	9.4
Shaanxi	44.3	28.5	14.7	12.5
Shanghai	80.6	13.9	4.1	1.4

4. Infant mortality in Shanghai from 1980 to 1983 was lowest at 1.93 percent while in both Hebei and Shaanxi infant mortality was more than 3.4 percent. The level of infant mortality reflects the medical care and the sanitation along with the standard of living of a society. The survey shows that the circumstance under which the child was delivered (the midwifery unit or midwife) was also a factor in lowering infant mortality. See the table below:

Infant Mortality in Hebei, Shaanxi and Shanghai and the Circumstances Under Which the Child Was Delivered

	Hebei	Shaanxi	Shanghai
Infant mortality (percent)	34.1	34.3	19.3
Place:			
Hospital or Clinic	14.7	19.9	90.5
At home	84.5	78.5	9.5
Other places	0.8	1.6	0
Deliverer of baby:			
Physician	20.3	13.2	71
Midwife or nurse	18.0	16.1	27
Others	61.7	70.7	2

In summary the basic fertility and infant mortality situation is: a) Average fertility has been declining for the last 30 years reflecting the success of the planned parenthood policy. From the gradual decrease in the ratios of the number of children born births to mothers who already had children was controlled in Shanghai relatively early. In Hebei and Shaanxi the decrease in the ratios of the number of children born to mothers who already had children was slower. During the 1960's it was still very common for women to have more than 1 child. b) Over the last 30 years, age at the birth of the first child has risen considerably: the median age at the birth of the first child rose 3.9 years in Shanghai, 3.4 years in Shaanxi and 2.2 years in Hebei. c) In 1984, the overall birthrate was 1.14 in Shanghai, 2.04 in Hebei, and 2.31 in Shaanxi. The normalized average age of the mother at the birth of the first child was 26.8 years in Shanghai, 24.9 in Hebei and 26 in Shaanxi. d) The state policy that each couple should have 1 child has been answered in the cities and in the countryside. Since 1980 the births of first children as a proportion of all births is 80.6 percent in Shanghai; and 46.8 percent in Hebei, and 44.3 percent in Shaanxi. e) Improved medical care and sanitation has reduced infant mortality. In 1980 to 1983, among children born alive infant mortality was 1.93 percent in Shanghai, 3.41 percent in Hebei and 3.43 percent in Shaanxi.

However during the first half of the 1980's the age of the mother at the birth of the first child fell. The proportion of women who have their first child at age 22 or earlier in Hebei rose from 13.7 percent back up to 18.5 percent, in Shaanxi from 23.3 percent back to 29.8 percent and in Shanghai from 2 percent back to 4.8 percent. In Shaanxi, 7 percent of the women still have their first child before age 20. In Hebei and Shaanxi births of second or later children still comprise one-fourth of all births. Thus late marriage, giving birth late, having few children, and eugenic propaganda still needs to be strengthened.

Party IV. Birth Control

A. Birth control information has spread to the point that the average married women (women who had a spouse when the survey was taken) knows five or six methods of birth control (including sterilization). Survey statistics show that birth control information has been most successful in reaching Shanghai women. The average Shanghai woman surveyed knows six or seven birth control methods; they were able to tell their interviewer an average of 3.8 methods without being prompted. Among these birth control methods, 90 percent of the women surveyed knew these four methods: the intrauterine loop, birth control pills, female sterilization, and male sterilization. Fifty percent of the women knew three additional methods for a total of 7.1 other than the four mentioned above, they also knew of the condoms, foam, and the rhythm method. Women in Hebei and Shaanxi knew fewer birth control methods than the Shanghai women. The Hebei women knew 5.6 methods, the Shaanxi women knew 5.2. The Hebei women could tell their interviewers an average of 3.8 methods without being prompted, the Shaanxi women, 3.2. In Hebei, 90 percent of the women knew these three birth control methods: the intrauterine loop, female sterilization, and male sterilization. Fifty percent of the women knew of two more methods, birth control pills and condoms. In Shaanxi, 90 percent of the women knew just two birth control methods, the intrauterine loop and female sterilization. Fifty percent of the Shaanxi women knew three more birth control methods: male sterilization, birth control pills, and condoms.

B. Over the last 30 years the average woman has used more than one birth control method. Survey statistics show that the average married Shanghai woman has used 1.6 birth control methods; the Hebei woman, 1.3; and the Shaanxi woman, 1.1. In Shanghai, where women generally use birth control methods, the average married woman in the 20 to 24 age group has used 0.8 birth control methods; women in the 25 to 29 age group, 1.2; women in the 30 to 34 age group, 1.6; and women above age 35, nearly 2 methods. In Hebei and Shaanxi married women in the 20 to 24 age group have used an average of 0.4 and 0.3 birth control methods, respectively; in the 25 to 29 age groups 1 and 0.9, respectively; and for women in the 30 to 39 age group, an average of about 1.5 for both groups. For women in the 40 to 49 age group, who had their peak fertility in the 1950's and 1960's when birth control information was not widespread, the average drops to just over 1 birth control method.

Very many women use intrauterine loops, especially in rural areas. The proportion of the married women surveyed who had used intrauterine loops was 62 percent in Hebei, 61 percent in Shaanxi, and 55.4 percent in Shanghai. Since intrauterine loops are a relatively effective and long-term birth control method, loop use is even more widespread among middle-aged women over age 30 who have already had children. In Hebei, the statistics on intrauterine loop use for women over 30 is about 70 percent; in Shaanxi, about 80 percent; and in Shanghai, about 60 percent. However among women in the 45 to 49 age group who had their peak fertility during the 1950's and 1960's, when the intrauterine loop was not widespread, the ratio declines. Thus the ratios for use of the intrauterine loop for the different age groups produces an inverted "U" curve.

Orally administered birth control drugs are a birth control method with short-term effectiveness. One-third of Shanghai's married women have used it; the figures for Hebei and for Shaanxi are 5 and 6 percent, respectively.

Only 20 percent of the Shanghai women had used traditional birth control methods such as the rhythm method and coitus interruptus. The statistics for Shaanxi and Hebei were 4 and 3 percent, respectively.

Female or male sterilization was generally carried out in the case of married women who had completed their reproductive duties. The statistics for Shanghai are 15.7 percent; Hebei, 40 percent, and Shaanxi, 28 percent.

C. The 70 to 80 percent of married women who practice birth control today reflects the success of family planning. The proportion of those practicing birth control is highest in Shanghai at 82.8 percent; next highest in Hebei, 75.6 percent; and lowest in Shaanxi, 69 percent. The large majority of these women use scientific methods of birth control. The intrauterine loop is in first place; orally or hypodermically administered birth control medicine is in second place; and condoms are in third place. Less popular are female and male sterilization. The proportion of those who use traditional birth control methods such as the rhythm method and coitus interruptus is 1.1 percent in Hebei, 1.9 percent in Shaanxi, and 6.3 percent in Shanghai.

The proportion of married women who had never used birth control methods when the survey was taken was 31 percent in Shaanxi 24.4 percent in Hebei, and 17.2 percent in Shanghai. Most of these are young married women who have not yet had children and older married women. However the survey results show that among women in the 30 to 39 age group who have already had 1 or 2 children and are still fertile, the proportion of those who were not using any birth control method was 2.1 percent in Shaanxi, 9.3 percent in Hebei, and 8.9 percent in Shanghai. Except in instances where the husband is away or for health reasons, we can improve the proportion of those using birth control methods through propaganda and education. See the table below:

Birth Control Methods Currently Used by Married Women in Hebei, Shaanxi, and Shanghai (Percent)

Region	Using Birth Control	Oral Drug	Loop Female	Other	Condom	Coit. Int.	Rhythm Method	Inject	Steril. Male	Female	Other	No Birth Control
Hebei	75.6	3.5	29.9	-	1.1	0.3	0.5	0.2	36.7	3.4	-	24.4
Shaanxi	69.0	1.4	36.6	0.2	1.4	0.4	0.7	0.1	24.9	3.1	0.2	31.2
Shanghai	82.8	8.8	45.8	0.9	6.1	1.1	2.5	0.5	13.2	2.3	1.6	17.0

D. The key to reducing the rate of children born to mothers who already have 1 or 2 children is to get women in their peak fertile period to use birth control. The use of birth control methods is closely related to the number of surviving children. Since the government's planned parenthood policy has received wide support from the masses the government has also supplied birth control devices and facilitated the insertion of intrauterine loops and operations for sterilization. Thus, women are practicing birth control irrespective of their level of education. The statistics show that the spread of birth control use is not related to level of education but that it is closely tied to the number of surviving children. See the tables below:

Birth Control Methods Used by Women of Hebei Shaanxi, and Shanghai Who Could Become Pregnant (Percent)

Educational Level	Hebei	Shaanxi	Shanghai
University	88.9	83.3	91.3
Middle	69.4	69.2	83.9
Lower Middle	76.8	72.3	86.4
Primary	88.1	83.6	92.1
No Schooling	83.3	82.2	89.9

Note: "Women who could become pregnant" are defined as women who were fertile but not already pregnant at the time of the survey.

Distribution of Women Who Practice Birth Control by the Number of Their Surviving Children in Hebei, Shaanxi, and Shanghai (Percent)

Surviving Children	Hebei	Shaanxi	Shanghai
0	2	4	11
1	69	52	87
2	85	76	91
3	90	86	91
More than 4	83	84	85

The tables show that among women of the two provinces and one municipality who have no children less than 10 percent practice birth control. This shows that many women are not planning the interval between their first marriage and the birth of their first child. Moreover after the first surviving child, the proportion of women who begin to use birth control to prevent or to plan the birth of the second child in Shaanxi, Hebei and Shanghai are 52, 69, and 87 percent, respectively. The proportion for women with 2 surviving children are 76, 85, and 91 percent, respectively. For women with 4 or more surviving children the proportion is lower, at 83 to 85 percent, in the two provinces and one municipality. Some of these are older women who are no longer fertile and so the proportion using birth control has declined.

These statistics reflect the correlation between the number of surviving children and practicing birth control. The proportion of women with more than 1 child who practice birth control should be increased. This demonstrates the importance of increasing the practice of birth control among women who have already had 1 or 2 children and are still in their years of peak fertility. This has great significance for reducing fertility.

As discussed above the basic situation in birth control is: 1) When birth control information is widespread, the average woman knows six or more birth control methods; 2) over the last 30 years the average woman has used more than one birth control method; 3) 70 to 80 percent of married women practice birth control. The most popular birth control methods are the intrauterine loop, orally and hypodermically administered drugs, condoms, female sterilization, male sterilization, etc. This shows that family planning work has achieved excellent results in the two provinces and one municipality. However, judging from the proportion of births to women who already have at least 1 child, strengthening family planning propaganda and education, and improving the quality of birth control devices, operations, and family planning services is still very important.

This preliminary report is presented to the leadership of the party and government and to the relevant departments for their reference. A thorough analytical study of the relation of social and economic factors to marriage, fertility, and birth control will await the report on the fertility survey for the nation as a whole.

October 1985

12369/7051
CSO 4006/1151

CONSTRUCTION OF SEVEN MAJOR TRANSPORT LINES SET

HK220621 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1250 GMT 20 Sep 86

[Report: "China to Build Seven Main Road, Rail, and Waterway Links"]

[Text] Beijing, 20 Sep (ZHONGGUO XINWEN SHE)--According to the State Council authoritative department, in order to improve China's transport networks, the Chinese Government will concentrate financial and material resources and major technical contingents, to construct seven major land and water transport links, traversing the country from east to west or from north to south and having a bearing on the country's overall transport situation. The transport links include railways, highways, and waterways.

-- The north-south railway passage. It is planned to build another trunk railway line between the Beijing-Guangzhou and Tianjin-Pukou railways. The new railway will run from Beijing to Jiujiang. As the first-phase of the project, a railway will be built between Shangqiu and Fuyang, after which it will be extended to the north and south. In order to transport coal from Shaanxi to Sichuan, new railways will be built from Xian to Ankang and from Xian to Baotou. Meanwhile, the Jiaozuo-Zhijiang and Zhijiang-Liuzhou railways will also be transformed.

-- The north-south sea transport line. Construction projects are in progress at all major ports along China's 18,000 km coastline. Major projects include the Dayao Bay project in Dalian, the coal dock in Qinhuangdao, and the large-scale west pier in Lianyungang. Shanghai harbor is now being expanded and the development of Meizhou Bay in Fujian and Bayu Bay in Yingkou has been included in the state plans. China will also develop a number of small or medium-sized satellite harbors along the coastline so as to form [?] distributed harbor network, from Dalian in the north to Beihai in the south.

-- Express highway routes. China will build a number of short- or intermediate-range express highways to support some economically developed cities and major harbors. For example, express highways will be built between Beijing, Tianjin, and Tanggu and between Guangzhou, Shenzhen, and Zhuhai. Afterwards express highways will also be built along the coastline, along major rivers, and along trunk railway lines.

-- Waterway passages along Changjiang, Zhujiang, and the Grand Canal. The waterways will be dredged and ports will be built or expanded so that: Ships of 10,000-ton displacement can enter Nanjing port along the Changjiang; ocean-going ships of 5,000-ton displacement can enter Wuhan; and ships of 3,000-ton displacement can enter Yibin, Sichuan. The Grand Canal between Jining, Shandong, and Hangzhou will be dredged. New canals will be cut to link the Changjiang with Huaihe, and to link the Xiangjiang in Hunan and the Xijiang in Guangxi, so that the Changjiang will also be linked with the Zhujiang.

-- Railway passages in the southwest and northwest regions. All railway trunk lines between Guizhou and Hunan, between Guizhou and Yunnan, and between Chengdu and Kunming in the southwest region will be electrified. In addition, new railways will be built between Kunming and Nanning, and between Nanning and Beihai. In the northwest region, the railway from Lanzhou to Xinjiang will be extended to the Sino-Soviet border, and a new railway will be built between Baoji and Zhongwei.

-- Transport lines leading to the northeast regions. Routes linking northern and northeast China are constrained by the bottleneck in Shanhaiguan. Therefore, new transport links will be opened across Shanhaiguan. New railways will be built between Qinhuangdao and Goubangzi and between Jining and Shenyang, so as to facilitate transportation between northern and northeast China.

-- Transport links to deliver coal from Shanxi to other provinces. This is one of the most urgent and important tasks in China's railway construction. Three major routes in the north, central, and south will enable Shanxi Province to deliver its coal to other provinces, especially to provinces in eastern China which are short of energy sources. For this purpose, railways between Datong and Qinhuangdao, Baotou and Beijing, Shijiazhuang and Chengde, Qingdao and Jinan, and between Yanzhou and Shijiazhuang will be built or expanded.

China's transportation experts believe that these seven major transport links will form the trunk lines and lifelines of China's transport networks for the next 5 to 10 years or even a longer period. The completion of these seven major lines will effectively improve China's strained transport conditions, and the projects will be of great strategic significance.

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CSO: 4006/12

SPEEDED UP ROAD CONSTRUCTION URGED FOR ECONOMIC DEVELOPMENT

Beijing GONGLU [HIGHWAYS] in Chinese No 11, 25 Nov 85 pp 1-3

[Article by Lin Xiangwei [2651 4382 1218], Highway Design Institute, Hunan Department of Communications: "Accelerate the Construction of Highways to Promote Economic Development"]

[Text] The 12th CPC Congress made communications and transportation a strategic focal point in the development of the national economy.In recent years, leader comrades in the central government have issued many directives on highway communication development. In March this year, in a national communications working committee meeting, Vice Premier Li Peng again pointed out the need for rational adjustment in the transportation structure and for more attention to development of highways. And thereupon welcome the coming of a rebirth of highway construction. Following the directive of Central Committee leader comrades on the issue of highway transportation development, each province first mobilized voluntary mass labor to widen and renovate highways, then pooled capital from various channels for construction work on highway bridges, obtaining significant results. But the development is uneven, and there are differences in the degree of understanding about expediting highway construction, so I feel that the understanding should go a step further and measures strengthened to advance on the crest of victory and complete the great responsibilities vested in highway construction by the soaring economy.

I. Accelerating Highway Construction Is an Important Way to Develop Production of Commodities and Improve the Material and Cultural Life of the People

1. A commodity economy attaches importance to demand.Research demand, satisfy demand, use demand to push supply. Determining the scope of investment in light of the demands of the whole society is one of the basic factors in guraranteeing the overall balance of the national economy. Under the conditions of a commodity economy and socialized mass production, the production and circulation processes are intertwined. If the circulation link in the production, distribution, exchange or consumption link is blocked, it will not only affect consumption but also production.

2. Demand results from commodity circulation. What the gross industrial and agricultural output value calculates is manufactured products, but whether these products become commodities or not, the gross output value cannot wholly represent economic results, and only the GNP (including tertiary industry) can be taken as demand expenditure. Do not take the one-sided view that industry (especially light industry) has high returns on investment and excellent results. Instead, results must be viewed from total social output value.

Japanese research in the 1960s on material circulation results culminated in the following diagram:

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              |-Production Cost
              | (mfg. costs):50%
   Commodity  |                                   |-transport costs:   10%
   Retail    >|                                   |
   Price:100% |                                   |-packaging costs |
              |              |-circ. of goods    \|-shipping  costs | > 5%
              |-Social       | and materials:15% /|-custodial costs |
                Circulation >|
                Cost:50%     |-selling costs:25%
                             |-profits:      10%
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For 1983, China's commodity circulation cost in commerce, grain and supply and marketing systems was 31.228 billion yuan. Of this, transportation and other costs were 7.809 billion yuan, custodial fees 1.526 billion yuan, and packaging costs 0.934 billion yuan, totalling 10.269 billion yuan, occupying 32.88 percent. That year, China produced more than 100 million tons of cement, of which 3 million tons were lost through rail shipments alone, the equivalent of 1 year's production at 3 large scale cement plants, and these 3 newly constructed cement plants require an investment of more than 1 billion yuan. Under suitable conditions, the employment of bulk shipments direct to the site has far better economic results. Highways are a public undertaking and have broad social results. Speaking from the viewpoint of a commodity economy, "time is money, efficiency is life, knowledge is strength, and information is resource." Hence, the social results of highways are far greater than the economic results.

3. China's strategic target of "quadrupling" refers to speed of development in production. It is tied to the condition that "economic results be improved so that the people obtain more actual benefit." Being "comparatively well off" is a target of even more substance. Then, what about the "communication and transportation" conditions which there should be by virtue of being "comparatively well off?" "Food must be nutritious, clothes must be beautiful, accomodations must be spacious, and transportation must be trouble free." It is imperative that the "difficulty of travel" be overcome, that the serious overcrowding and suffering and misery of travellers having to stand for an entire trip be resolved! The quickest and most economic method is by expediting development of highway mass transportation, taking into consideration not only medium and short runs (under 500 kilometers), but also long distances where air transport is currently not able to meet passenger demands. With roads widened and upgraded to blacktop, average speeds can reach 60 kilometers per hour, making an 810 kilometer trip from Changsha to

Guangzhou only 13 hours, and with large comfortable passenger buses, travellers would be satisfied. Hunan has already ordered 70 deluxe passenger buses and many interprovince passenger buses have been place into service and loan repayments are fast. China's automobile industry is accelerating forward, but before Chinese made vehicles can satisfy demand, part of the large passenger buses will be imported. When Chinese made vehicles can satisfy demand, the "mix of foreign brand" vehicles will have fully depreciated.

4. Learn from Sichuan by emphasizing highway construction as an important means to "enrich the people and enhance position." Especially areas in the province rich in resources but where economic development is not rapid. Even with more rich deposits, they could not be exploited if circulation channels are not smooth. Materials can become commodities only by enlivening circulation. China has vast areas of mountains and hills with a wealth of resources, yet the people are somewhat poor. Why? Communication is not smooth! One cannot "recite the litany of mountains and streams and get rich in the five industries" unless there are roads. As they say in Shanxi: "to get rich, first repair the roads," a very practical statement.

II. The Acceleration of Highway Construction We Need to One, Rely on Policies and Two, Rely on Science

The major tasks for communications departments now are one, to emphasize structural reform and two, to accelerate the pace of basic installation construction in communications. Henceforth, in addition to strengthening industrial management and administration management work, communications departments in charge will mostly concentrate on "repairing roads, building bridges, constructing ports and harnessing rivers." It is necessary to think up more in the way of policies, because basic communications and transportation installations are extremely frail; highways especially are poor in quality and few in number and too much was owed and capital is still insufficient.

1.Implement linking popularization with the raising of standards, and make raising of standards the key policy. At present, the most glaring contradiction has become "having roads but not being able to travel on them." One after another, Guangxi, Shanxi, Hebei, and Henan have asked for emergency assistance, and other provinces are no exception. Weak road foundations originally designed to withstand the passing of 500 vehicles a day now have to bear 10 times that number. It is estimated that the guaranteed volume of vehicles in China will increase from 2.5 million today to 6 million in 5 years. By the year 2000, the number will increase to 13 million. With an annuall production capacity of 680,000 vehicles, the widening and renovation of main highways must be expedited. All the provinces are mobilizing mass labor and getting road foundations done well, with Sichuan taking the lead, renovating 10,000 kilometers of highways since last winter. After learning from Sichuan, Hunan also mobilized voluntary mass labor to widen and renovate more than 8,700 kilometers of highways, of which 3,566.9 kilometers are national and provincial highways; 158.3 kilometers, primary roads; 3,122.7 kilometers, secondary roads; and 276 kilometers, tertiary roads. Mobilizing 3 million to 4 million people, Hunan has rarely seen so much done in so short a time. This can quickly and cheaply solve the problems of renovation of main highways and development of district and township highways.

With the help of localities and the masses to widen main highways to secondary highways (12 meters wide), the cost of construction, at 12,000 yuan per kilometer for dismantling and moving, requisition, cubic yards of earth and stone, and culverts, plus 15,000 yuan per kilometer for bridges and a triple layer, 9-meter wide asphalt heavy duty road top, was inexpensive. This was mostly due to the savings from requisitioning land and pulling down and moving homes, and to voluntary mass labor, a characteristic of China; all 18 nations and areas at the Asian Pacific Region Rural Road Construction and Maintenance Symposium thought this experience was good. With each in the labor force volunteering 5 days a year, rural villages have moved from a self-sufficient natural economy into an era of a commodity economy, and along with better living, demand a "smooth circulation of goods and convenience of travel for people." By providing one's own labor to repair one's own roads, is there a need to blow one's own "communist wind?" Fine tradition must be steadfastly upheld and work unceasing in the development of highway construction. Struggle to "enrich the people and enhance position," and do not be shaken by rumor or gossip. Shortcomings during the course of work can be overcome.

2."Providing work as a form of relief" is a good policy, and helps to "enrich the people and enhance position." The goal of socialism is the desire that "everyone be wealthy." Work is progressing in taking advantage of provisions and cotton cloth to help poor areas repair and build roads. Up to now, work on 12,400 kilometers of road sections has begun throughout China, or about 20 percent of the annual target. According to statistics from 22 provinces and autonomous regions, the state's allocation of provisions and cotton cloth for repair and construction or roads has reached the equivalent of 1.554 billion yuan. Various localities should help supply drill rods, blasting powder, cement, and other accessories, capital,and material that are in short supply in rural villages so that construction of roads to "enrich the people" can be completed early. The provisions and cotton cloth allocated by the state, capital pooled by the masses, and bank loans were used in a concrete way by Fuyuan County of Yunnan Province for road repair and construction, resulting in the basic completion of 13 distict and township roads totalling 138 kilometers and rural roads totalling 110 kilometers. The experiences of Xianyuan County in Shanxi Province of doing well in the "three self undertakings" to develop "small communications" can be borrowed upon.

3. Actively pool capital and accelerate ancillary facilities. Main highways already widened cannot be put into full play unless emphasis is placed on resurfacing roads and widening bridges, yet traffic volume is increasing rapidly and there is urgent need for higher quality highways. The first step is to widen the gravel roads to bring early benefits to simple vehicles, then to lay asphalt. Taking Hunan for example, the necessary capital required for the 2,500 kilometer first stage is 500 million yuan; for the second stage, the completion of main highway renovation requires a 980 million yuan investment. In addition to raising the charge for road maintenance, a vehicle purchase tax, funds allocated by the Ministry of Communications, and the capital return on the energy and communications fund, Hunan can also open other avenues of

finance based on methods used in Guangdong, such as a one fen per kilometer surcharge on passenger tickets towards a special communications development fund, which can bring in 84 million yuan a year, and a ferry fee, to bring in 6 million yuan a year, to quicken the progress of ancillary projects.

4. Actively train technical and managerial talent to meet the demands of highway development which is growing by leaps and bounds. At present there is a shortage of technical and managerial talent; 50 percent of backbone technicians are 40-50 years old, and there is a lack of young, 20-30 year old talent to fill the gaps. This is the evil consequence of a decade of disorder, and it is a common situation throughout China. Educational departments will take most candidates for higher education and from middle and vocational schools into consideration, but units in each enterprise and facility must also set up training sessions and coordinate with colleges by having them teach basic courses while the units teach specialized courses; technical training work should also be carried out on many levels. Each prefecture, municipality and county can link up project requirements to cultivate local technical strength, learning while doing. Provincial communication departments can do overall compiling of teaching materials. Grass root level technical personnel must be provided to guarantee the quality of road repairs.

5. The relation between highway renovation and maintenance. Widening and renovating highways is getting to the root of the problem, but it will take a period of time. With traffic volume increasing every day, maintenence work is already a heavy burden, but maintenance work can only be strengthened, not reduced. Manpower, finance, and materials stipulated in road maintenance plans must be used for that purpose; there are other other professional teams for widening and renovating highways. Road repair crews must strive to guarantee good conditions of highways and to provide the right conditions for enhancing results in transportation. The mobilizing of social strength can also be considered for the maintenance of good main highways, such as having mass volunteers prepare the gravel and store materials. On highways, the responsibility system should be implemented, and the problem of heavy traffic volume which damages roads and disrupts traffic must be prevented.

6.The relation between purchasing a vehicle and repairing roads. At present, various businesses and undertakings are actively purchasing vehicles, and it is easy to obtain support from leaders and finance sectors; the profits are high and the payback period is short. This is what is good about rapid development of highway transportation. But because road standards are low and quality is poor, the average speed is only 30 kilometers per hour. A more economical speed for the Dong Feng 140 is 60 kilometers per hour; with ill-repaired roads, it takes two vehicles to do the job of one. Comparing gravel with asphalt top roads, vehicles can save 15 percent in fuel consumption and lengthen the road life of tires by more than 10,000 kilometers by travelling on the latter. In addition, after vehicle speed increases, efficiency in vehicle dispatch increases substantially (from Changsha to Changde, for example, the regular service route is 198 kilometers, enabling a return to Changsha on the same day), allowing a reduction in auxilliary installations and corresponding personnel, and doubling economic results. To enhance vehicle transport results, it is sugested that the vehicle transport regulatory tax be reduced or eliminated to stimulate vehicle replacement and increase the number of heavy trucks and special trucks to haul containers. Doing so would double and redouble results and significantly reduce costs. But the basic issue is still good road repair.

7.Give importance to preliminary stage work in in basic installations, and earmark special funds. At present, there is much to be done, but investigation and research and data are insufficient, so it is impossible to make policy.For example,build more expressways according to demand and feasibility. Except for the expressways from Guangzhou to Shenzhen, from Beijing-Tianjin-Tanggu, and from Shenyang to Dalian and around the outskirts of Shanghai which are being built or are already built, other economic areas, such as the Changsha-Xiangtan-Zhuzhou area, called Hunan's golden triangle, all have an incoming-outgoing peak density value reaching 10,000 vehicles. Shouldn't the feasibility of expressways be studied? Or even extend the highway to the Guangzhou-Wuchang route. If it is a feasibility study on an industrial project, enterprises concerned would be very willing to pay. Road repair is a public undertaking. Everyone benefits, not just one unit or one enterprise. The society benefits. Everyone pays lip service but no one takes action. Design units are developing in the direction of enterprises, and only want survey and design work listed in construction projects for which they can charge. Because of this, the state must list down the item of basic installation preliminary stage work expenses; strong and sturdy preliminary stage work which is reliable is helpful to leadership for making decisions.

Moreover, sufficient attention must be given to the problem of ample supply of road construction material, mostly asphalt and the three materials for good quality roads so as to satisfy the concrete demands of highway construction that is making rapid strides.

12888
CSO 4006/631

PROGRESS OF SOVIET ECONOMIC REFORMS DISCUSSED

Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese 10 May 86 No 5, 1985
pp 57-61

[Article by Wang Wenxiu [3769 2429 0208], Institute of International Economics and Government, Chinese Academy of Social Sciences: "The 27th CPSU Congress and Soviet Economic Reforms"]

[Text] During the conference on issues in the advancement of science and technology held by the Central Committee of the CPSU in June of last year, Secretary General Gorbachev said in criticism of his predecessors that they had "gone around in circles for many years with little progress" in planning management and in the overall economy. It appears that errors were committed out of fear of adopting resolute measures and, at times, overt conservatism was to blame. Moreover, problems encountered today are actually those problems created a decade earlier which have become more acute. This demonstrates that the traditional Soviet economic system does not function properly; it does not meet the present demands of economic growth. Thus, did the 27th CPSU Congress held not long ago take a large step forward and break out of the rut in the matter of economic reforms? This article is based on the principal documents of the 27th CPSU Congress and presents only a preliminary analysis of this question.

I. Economic Reforms Constitute an Important Part of the Strategy Formulated by the 27th CPSU Congress for Accelerating Social and Economic Growth

At the April plenum of the Central Committee last year, Gorbachev proposed the strategic idea of accelerating social and economic growth. This strategic concept was confirmed as the party's general line for domestic policies at the 27th CPSU Congress. This general line will become the guide to action for the whole party. Gorbachev declared that "the Central Committee must resolutely eliminate all obstacles on the road to accelerating social and economic progress."

What are the differences between the strategy for economic growth recommended by the 26th CPSU Congress and the "strategy of acceleration" proposed by the 27th CPSU Congress?

First, the "strategy of acceleration" was suggested just as they were confronting reality and mistakes. Gorbachev has admitted that the growth rate of economic and labor productivity has clearly declined, progress in science and technology has slowed down, disproportions in the economy have gotten worse, and the previous three 5-year plans remain unfulfilled. Even more serious, in the past "political evaluations of change in the economic situation were not made in a timely manner" and the "full importance and urgency for introducing methods for intensive economic growth were not clearly understood." "There has been no sign of steadfastness and consistency" in resolving pressing problems such as readjusting economic reforms, the management mechanism, and attitudes underlying economic activities. The political report of the plenum pointed out that the emergence of various harmful trends in the area of economic and social spirit are, above all, due to subjective factors. As a result, many more problems arise in the development of the nation than are resolved. "Inertia, rigidity in forms and methods of management, a reduction of vigor in work, and the spread of bureaucratism have all lead to numerous losses."

Second, there are more tasks to be fulfilled in the "strategy of acceleration" than in the strategy proposed by the 26th CPSU Congress. The task of the strategy suggested then was the following: to ensure further improvements in the welfare of the Soviet people on the basis of stabilizing the national economy, wholeheartedly developing and accelerating progress in science and technology, rapidly bringing about intensive growth in the economy, even more rationally utilizing national production potential, vigorously conserving all natural resources and improving the quality of work. The "strategy of acceleration" proposed the following seven tasks: 1) accelerate the pace of economic growth; 2) hasten to improve labor productivity and carry out the change to intensive economic development; 3) on the basis of S & T advancement, reduce consumption, increase efficiency, and bring about modernized production; 4) readjust the economic structure, including the industrial structure; 5) increase investment results, reorganize the direction of investments, and accelerate the renewal of fixed assets; 6) fulfill the tasks necessary for agriculture to change over to an industrialized base; and 7) improve the standard of living on a large scale with particular emphasis on providing production feedback information on consumption.

In order to accelerate development, it is first of all necessary to increase the growth rate. The key is to intensify production on the basis of S & T progress, transforming the economic structure, effective management, labor organization and incentives. The "strategy of acceleration" is also crucial for resolving all short-term, long-term, economic, social, domestic, and external problems. (Footnote 1) (See "Time for an Abrupt Turnaround" USSR PRAVDA 10 March 1986.)

Third, Gorbachev pointed out at the 27th CPSU Congress that the realization of the "strategy of acceleration" depends first on advances in science and technology and, second, on economic reforms. Economic reforms should be regarded as an important constituent part of the "strategy of acceleration."

Brezhnev's understanding and assessment of the traditional Soviet economic system was totally different from Gorbachev's. The former fully confirmed the traditional system. Consequently, he urged continuing to perfect the existing economic system which meant nothing more than making some repairs and readjustments in the existing foundation. The latter has basically rejected the traditional system. He believes that "the present form of production relations, management and the control system basically formed under extensive economic development. They have gradually become outdated and have begun to lose their incentive function. Moreover, certain things have already become obstacles." He also stressed that economic management "must not be confined to partial improvements, it is essential to carry out basic reforms." Thus, it can be seen that Gorbachev's grasp of the significance of the necessity and urgency for reform is far deeper than his predecessors'.

II. Several Theoretical Issues Guiding Future Soviet Economic Reforms

In his political report on the reform of the Soviet economic system to the 27th CPSU Congress, Gorbachev brought up a series of theoretical issues. By analyzing theoretical issues it is possible to see both the range and scope of future reforms of the Soviet economic system. In contrast to the past, the following several points deserve some attention.

1. The problem of proceeding from reality. In his earlier speech Gorbachev called upon social scientists to confront reality and criticized their slowness and timidity in resolving critical theoretical problems. In his political report, he pointed out that it is essential to cast aside outmoded thinking, proceed from the demands of subsistence, and "look at certain theoretical ideas and concepts in a new light." He believes that the criteria for the perfection of the economic system should be "the accelerated growth of the social economy and the true consolidation of socialism." He criticized the prejudice of "regarding almost all changes in the economic system as deviating from socialist principles." He called on people to thoroughly overcome negative, formalistic, and indifferent attitudes and "the custom of getting vigorous causes bogged down in senseless and endless disputes that go around in circles."

2. The problem of determining the phase of a socialist society. Early in 1967, Brezhnev claimed that a developed socialist society had already been established in the USSR. Andropov and Chernenko put forth the view that the USSR was at the starting point of the historically long phase of flourishing socialism. This was a reduction from the "theory of being established" to the "starting-point theory." Gorbachev, however, upheld the draft of the revised edition of the CPSU program which said that the USSR "has already entered the phase of flourishing socialism" and thus "the task of striving to fully perfect the socialist society is already on the agenda." This viewpoint coincides with the ideas advocated by Gorbachev, that is, it is necessary to prevent the premature announcement of the rash advance of the transition of communism, to oppose hesitancy in solving problems through practical action, and to overcome hesitancy to move forward in areas that are weak.

3. Problems in the contradiction between production relations and the growth of production forces. Brezhnev acknowledged that in a socialist society there

exist numerous kinds of contradictions. However, he did not acknowledge the problem of the contradiction between production relations in a socialist society and the growth of production forces but rather emphasized even more strongly the coordination between them. Gorbachev has been critical of the fact that explanations of this problem are far from able to overcome dogmatism. Moreover, dogmatism has been more of a hindrance than a help to Soviet theory and practice. At this session of the CPSU Congress, he once more criticized the idea that "the correspondence between production relations and the nature of production forces seems to be automatically guaranteed." He pointed out that the essence of this idea is to simply eliminate the issue of improving production relations. It stresses that only by constantly engaging in work with clear objectives for improving the overall socialist economic system is it possible for there to be correspondence between production relations and production forces.

4. The problem of commodity currency relations. In recent terms, only since the Soviet economic reforms of the 1960's have Soviet economic circles engaged in extensive discussions on the issue of commodity currency relations being closely linked to economic reforms. The results of the discussions were that the majority of economists held negative ideas of commodity currency relations under a socialist system or have underestimated them to the point of criticizing without restraint the trend of "market socialism" for a relatively long period of time. At this session Gorbachev pointed out that it is necessary to take another look at the role of commodity currency relations and to "overcome preconceived ideas regarding commodity currency relations and overcome the phenomenon of underestimating commodity currency relations when guiding economic practice according to plans." He also said that if they deny its significant positive impact on increasing the people's concern with causes and increasing production results, this will weaken economic accountability and lead to other harmful consequences.

The political report went on to point out that it is necessary to creatively apply Lenin's idea concerning the grain tax so as to facilitate the establishment of an effective economic structure in agriculture. Gorbachev has not yet provided any explanation on how to creatively apply this idea. Moreover, applying Lenin's idea of a grain tax means applying Lenin's idea regarding new economic policies. This means that in agriculture it will be necessary to more fully utilize commodity currency relations, relax policies, give peasants even more freedom, and arouse their initiative.

5. The problem of ownership. For a long time the USSR has upheld the "congruence" and "mixing together" of collective ownership and public ownership. They have neglected exercising the role of collective ownership. Because they have upheld the idea of having communes "larger in size" and "collective" in nature, they have reorganized them into state-run farms on the basis of merging many backward collective farms. This method is both disadvantageous to arousing peasant initiative and has added to the state's burden. At the plenary session, Gorbachev stressed that "the power of cooperative ownership has not yet been fully exercised." He recommended developing cooperative systems not only in agriculture but also in production, product processing, home building, services, and commerce. As for operational form, he particularly emphasized the importance of the following three forms: production

brigades, production teams, and household contracting systems. Production materials, including land, are provided to them in keeping with contract time limits. New meaning has been given to public ownership. He called for study and implementation of the principle of "socialist autonomy" and for giving free rein to developing the inspirational spirit of working people being masters. He supported "total harmony with socialist operational principles" or "establishing individual labor activities on the basis of cooperation."

III. The USSR Prepares To Adopt Essential Measures for Economic Reforms

Upon entering the decade of the 1980's, due to a constant decline in the economic growth rate, economic extensive growth has gradually worsened. (For example, labor power sources are inadequate, the cost of exploiting natural resources has become more expensive with every passing day, and the investment growth rate is becoming more rapid, etc.) The development of the economy toward intensification has been excessively slow and the challenge from developed capitalist countries, particularly the United States, has become stronger in areas such as the economy, science, technology, and military affairs. In addition, there is the development of economic reforms in socialist countries. All this has accelerated the pace of Soviet economic reforms. In his political report, Gorbachev said: "if we do not thoroughly transform the economy and establish an integrated, effective, and flexible management system that can more fully develop the potential of socialism, we will be unable to take on new economic tasks."

The 27th CPSU Congress stressed that at present the guiding principle of perfecting the economy is still part of democratic centralism. Currently, the basic course for transforming the Soviet economy is: to increase the economic efficiency of the central leadership; to expand enterprise autonomy and make a gradual transition to full economic accountability; to expand the scope of the utilization of economic methods; to ensure that management work has a modern organizational structure; to integrate departmental economic management with local economic management; and to increase the role of collective labor in management. The essential measures that the USSR must adopt in economic reform involve the following areas.

First, improve planning. The Soviet planning system was established on the basis of a highly centralized economic management system. At present, the principal work in improving planning consists of perfecting this planning system in terms of technology and methods. Although this has shaken up the highly centralized economic management system, the effect has been small.

In the proposed work of reorganizing the State Planning Commission, it is necessary to truly make it an economic consulting office free from everyday work. The activities of the State Planning Commission must focus on national economic strategies. Above all, it must focus on establishing overall economic, departmental, and local proportions.

Reduce the number of planning directives handed down to enterprises and joint companies. Since economic experiments were begun in 1984, the number of state directives handed down to enterprises has clearly decreased compared to the number of directives prescribed by resolutions in July 1979. For instance, the number of 5-year plan directives for experimental industrial enterprises and joint companies was one-half or three-fifths the number prior to the experiment. At present, they are just revising the principal directive for evaluating enterprise operations and restoring the directive for using product sales quotas. There are chiefly three to five directives handed down to enterprises by the state for the fulfillment of supply plans according to contract, for the reduction of product costs (directives to certain departments to increase profits), for labor productivity, for the use of new technology, and for putting fixed assets into production. The directive for fulfillment of product sales volume according to sales contracts is the chief directive for evaluating enterprise business activities.

Increase directives for setting quotas. These quotas are formulated based on general production levels of an enterprise. They are valid for quite a long period. They remain relatively steady for 5 years and are advantageous for exploiting enterprise production potential and motivating initiative.

Second, improve the organizational form of economic management. The USSR is about to reorganize ministries and management departments. Ministry activities must focus on the following several areas: affirming a department's strategy for S & T advancement and the prospects for development; improving the overall standard of economic work; and fully ensuring society's demands for goods. A comprehensive organization that cuts across departments will be established and most of the business administration and functions of ministries will be directly handed over the enterprises and joint companies. Industrial enterprises will basically head toward having a two-level management system.

Expand enterprise autonomy. "In order to resolutely expand the scope of independence and self-determination of joint companies and enterprises and to increase their responsibility for obtaining the greatest final results, it is necessary to ensure that they convert to having full economic accountability, being responsible for their own profits and losses, and raising their own funds." Despite the use of old familiar wording in the phrase "full economic accountability" nevertheless past experiments have substantiated its terms which include the following: change the production development fund to the basic source for technological transformation; rely on funds earned by enterprises (or collectives) to improve living conditions and other conditions of social life; the labor compensation of each individual is to be determined by his or her own contribution to the final outcome; block various channels for enterprises operating at a loss so that they cannot rely on profits or enterprise subsidies; expand the scope of contractual relations while enterprises strictly carry out their duties and accept their responsibilities toward consumers; stop the illegal supervision and interference of upper-level agencies in enterprises while enterprises independently seek out the best way to implement plans.

Local joint companies that cut across departments have been established on a trial basis in urban areas. The objective is to link up enterprise information and to centrally allocate and use surplus manpower, materials, financial resources, and leftover bits and pieces. This is advantageous to utilizing the research results of local scientific research offices and accelerating S & T progress.

Develop scientific production joint companies. This method began early in the 1970's and is currently being promoted on the basis of past experiences. Scientific production joint companies include all processes from scientific research to production. In addition, the USSR is also establishing interdepartmental operations for S & T progress in order to expand and strengthen cooperation between departments.

Make further improvements in the agriculture industry organization. It is necessary to establish a state commission on agriculture and industry on the basis of merging 6 agricultural departments within the more than 10 agricultural departments throughout the USSR. It will centrally carry out work in planning and financial allocations, and there will be a central supply system for material and technology. This will be advantageous to overcoming departmental barriers and strengthening lateral links.

Third, improve the material incentive system. The USSR is about to strengthen the incentive role of price on improving product quality. Starting in 1986 periodic assessments of enterprise products will be made and rewards or penalties meted out according to quality. The wholesale prices of all products which are considered to meet advanced international standards will be increased 30 percent, with 70 percent of the price increase remaining with the enterprise and 30 percent being delivered to the state. There will be price rebates for products of poor quality. The first year they will deduct 5 percent, the second year 10 percent, and the third year 15 percent. If after 3 years products have not attained high-quality standards, then production will be halted.

In addition, it is also necessary to improve the methods of forming various funds in enterprises. At the 27th CPSU Congress, special commendations were made of the experiences of the Volga Automobile Plant and the Sumei Scientific Production Joint Co. Their method involved trying to link up enterprise funds with the final results of enterprise business activities, that is, an increase in the wage fund is linked to an increase in the fixed amount of net output value. Also, an increase in the material incentive fund is linked to a decrease in production costs and an increase in the fund for construction of social and cultural facilities and housing is linked to growth in labor productivity. In the new 5-year plan, the USSR is prepared to increase the wages of personnel in scientific research and design who have contributed to S & T progress so that their wages and awards directly hinge as much as possible on the fruits of their labor.

Besides the three areas mentioned above, the 27th CPSU Congress also presented several tentative plans on improving the financial credit system, pricing principles, and the material supply system.

IV. Prospects for Soviet Economic Reforms

Upon analyzing the aforementioned theory and principal measures, one can see the rough outline of Soviet economic reforms. In terms of theory, there certainly have been some advances compared to the Brezhnev period. In terms of specific measures, some rather new ideas have appeared, such as reorganizing the State Planning Commission, strengthening the role of quotas, linking distribution and results, establishing an interdepartmental agency, etc. However, these conclusions, which are still difficult to attain, show that Soviet economic reforms will break away from the restraints of the traditional system. Take, for instance, the problem of using commodity currency relations. They simply say that it is necessary to overcome prejudices on this matter and to solve the problem of underestimation yet under socialist conditions the issue of how to use and develop commodity currency relations is still not clear. A further example is the problem of the relationship between planning and the market. This is a problem that no socialist country can avoid in the process of reforming the economic system. Nevertheless, this was not touched upon in the major documents of the 27th CPSU Congress.

Of course, the principal task of the 27th CPSU Congress is to affirm the strategy for national social and economic development. It was not a plenum for formulating and passing programs for economic reform. In his closing statement at the 27th CPSU Congress, Gorbachev stated that affirming the party's general line toward domestic and foreign policies is "the principal political result of the 27th CPSU Congress." There is still, however, no comprehensive program of economic reforms It is necessary to make further arrangements: There must be ideological and organizational preparations as well as preparations involving the design, trial implementation, and promotion of programs. In addition, arrangements must be made for domestic and foreign conditions.

It can be seen from the political report that Gorbachev's determination to implement Soviet economic reforms is great. He has clearly stated that "we should take action in a consistent and energetic manner and not hesitate to take the most daring steps." "Since reforms are already underway, we cannot abandon them halfway." Reforms "are only the beginning," "we need time and resolute efforts." However, can Soviet economic reforms shake off the yoke of the traditional system, stop going around in circles, and "make advances step by step"? At present, it is still difficult to make any judgments; further examination is required.

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CSO: 4006/1217 END

JPRS-CEA-86-112

20 OCTOBER 1986

China Report

ECONOMIC AFFAIRS

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JPRS-CEA-86-112

20 OCTOBER 1986

CHINA REPORT
ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

CIRCULAR ISSUED ON MAJOR ECONOMIC TARGETS

HK120953 Beijing JINGJI CANKAO in Chinese 4 Sep 86 p 1

[Report: "The State Economic Commission and State Statistics Bureau Issue a Circular on the Implementation of the Major Economic Targets in the Industrial and Communications Sectors in the First Half of 1986 (30 August 1986)"--Passages in slantlines published in boldface]

[Text] In the first half of 1986, the country's industrial and communications production expanded in a steady and coordinated way; total industrial output value was up 4.9 percent; the production of energy and raw and semifinished materials was in fairly good shape; the supply of readily marketable products on the market increased quite considerably; in foreign trade export volume rose remarkably; and the transport and communications sector overfulfilled its plans. The economic situation was fine on the whole. However, unsatisfactory economic results remained a salient problem in the current industrial production. According to statistics, in the first six months of the year, the profits and taxes realized by state-owned industrial enterprises as budgeted were 2.2 percent less than the same period of last year and the profits and taxes they handed over to the state were down 1.8 percent; the costs of comparable products were 4.2 percent higher than planned; the amount of losses suffered by loss-making enterprises totaled 2 billion yuan or an increase of 56 percent over the corresponding period of last year, the number of loss-making enterprises increased to 17.5 percent from 13.4 percent in the same period of last year; and the turnover period of working funds was lengthened to 11.8 days and in particular, the amount of funds used in the production of end products increased by a fairly big margin.

The main reasons for the unsatisfactory economic results are as follows:

1. The reform of the wage system carried out in enterprises at the beginning of 1986 upset the implementation of the enterprise economic responsibility system in some localities; the difficulties confronting the introduction of the director responsibility system seriously dampened the enthusiasm of staff members and workers as well as cadres for production for a time and in some localities there was a fairly slow growth in production and a drop in profits and taxes.

2. The product mix was not commensurate with the changed consumption patterns and the increase in funds used to turn out end products was excessive. At the

end of June, the amount of funds used by state-owned industrial enterprises to turn out and products totaled 36.7 billion yuan, nearly 8.5 billion yuan more than the same period of last year or up 29.8 percent, thus greatly exceeding the normal level and moreover, this was a common phenomenon. Apart from the normal and incidental factors, such as expansion of production scale, increases in the prices of materials and in transport charges, and seasonal factors, the main reasons behind this were a poor link-up between production and marketing and overstocking of some unsalable products resulting from their poor quality and unduly high prices. Of light industrial and textile items, those which were unmarketable constituted about 15 percent to 20 percent and the production of some items, such as clothes and candies, exceeded the capability of the market to absorb. Some products, such as black-and-white television sets and washing machines have not yet entered rural markets. More than 30,000 motor vehicles were held in stock in the eight key enterprises attached to the China Motor Vehicles Corporation at the end of June, a number 230 percent bigger than the corresponding period of last year.

3. Controls over quality and material consumption have been relaxed and in particular, the decline in product quality has not been checked. According to the statistics of the 75 major quality targets of 12 industrial and communications departments, the rate of product quality which steadily improved in the first half of the year was 62.7 percent, 10.7 percent-point less than in the same period of last year. The quality of some light industrial and textile products fluctuated fairly greatly and the quality of some machinery and electronics products left much to be desired. Of the 105 material consumption targets, 37.1 percent showed resilience. The main reasons behind uncertain quality and increased material consumption lay in the facts that some localities, departments, and enterprises tended to put one-sided stress on quantity to the neglect of quality and to attach importance to expansion of production scale to the neglect of intensive benefit and consequently, they failed to pay keen attention to management. Moreover, the quality of raw and semifinished materials and in particular, materials put under negotiated prices left much more to be desired.

4. There were big increases in various charges or fees, pushing product costs up. Since the beginning of this year, increases in the prices of raw and semifinished materials, wages, and in management fees have generated a rise in production costs and a drop in profits. According to the calculations of Shanghai Municipality, of the factors causing the reduction of profits, the effect of increased prices of raw and semifinished materials comprised 57.5 percent, that of increased costs resulting from the inclusion of newly increased wages constituted 13.7 percent, and that of increased interest payment and nonoperational expenses made up 12.3 percent. In the first six months of this year, Liaoning Province overspent 350 million yuan on production. Among other factors causing the overspending, the effect of increased prices and interest comprised approximately 60 percent and that of increased costs resulting from the inclusion of wages increased during the execution of the reform of wage system constituted [words indistinct] percent. In addition, many localities and departments arbitrarily apportioned expenses under a multitude of names among enterprises, such as fees for running power station projects as a contribution in the locally raised funds, expenses for building roads and bridges, costs for running schools based on locally raised

funds, tuition fees, membership fees to a society or association, and so on and so forth. In some localities there were nearly 100 kinds of such apportioned expenses, thus putting an added burden on enterprises.

In order to put an end to the present situation in which economic results are poor as quickly as possible, it is hoped that all localities and departments pay earnest attention to the following tasks in the months ahead:

/First, it is necessary to continue energetically implementing the spirit of the conference of governors, to adhere to reform, the spirit of the conference of governors, to adhere to reform, and to pump new vitality to enterprises./ Efforts should be made to further implement the State Council regulations concerning the expansion of decisionmaking power of enterprises, to pay close attention to the institution and perfection of an enterprise economic responsibility system and a director responsibility system, to persist in giving priority to the improvement of economic results, to effectively carry out the numerous regulations of the State Council on firmly curbing the arbitrary apportioning of expenses among enterprises, to lighten the burden on enterprises, and to create conditions favorable for enterprises to develop production and to raise economic results. On the basis of the steady and coordinated development of industrial and communications production in the first half of the year, continued efforts should be devoted to the organization and management of production. The growth of output value and the improvement of quality, marketability of products, reduction of consumption, and acceleration of the turnover period of funds should be closely combined so that this year's industrial production can expand at an appropriate rate and better economic results can be attained from it.

/Second, it is essential to expand sales, to make timely readjustments of the product mix, and to reduce overstocking of products./ In view of the current overstocking of products, while paying close attention to production, all localities and departments should organize cooperation between industry and commerce, open up more circulation channels, lead the direction of consumption, offer services to the doorstep, and do a vigorous job in sales promotion. It is necessary to transport the commodities which have become a drug on the market in cities and towns, but still find a market in rural areas, to the countryside for sale and to ship the commodities which are unsalable in a specific locality but have a good sale in other localities to those localities for sale. We should also do a good job in after-sales services and maintenance. We should appropriately widen price differences for products of different grades, high, medium, and low, set high prices for products of good quality, and promote the sales of goods of better and higher quality and of popular goods of dependable quality. On the other hand, we should actively readjust the product mix, strive to develop more new product designs and varieties, adhere to the notion of production according to sale, vigorously increase the production of goods in short supply and of export goods capable of earning foreign exchange, and limit the production of poor-quality and slow-selling goods.

/Third, it is imperative to vigorously promote the improvement of product quality and the sparing use of energy and raw and semifinished materials/ We should uphold the idea of quality going first, firmly implement Comrade

Xiaoping's directive of "what is most important is the problem of quality," and give prominence to the word "strict." We should further tighten overall quality control, extend the management of the process of production to that of designing and marketing; should rigorously strengthen the checking and control of the quality of raw and semifinished materials and ensure no substandard materials are used in production; and in implementing the economic responsibility system, we should stress that quality targets are the decisive factor for the distribution of bonuses by enterprises to their staff members and workers. We should launch the activities of contributing rationalization proposals and carrying out technological innovation with the improvement of quality and reduction of consumption as the main contents, mobilize our 80 million staff members and workers to concern themselves over quality and to give advice and suggestions for the improvement of quality, implement the trial methods of rewards for economizing on the use of raw and semifinished materials and fuels at each level of administration, ensure that rewards are duly conferred and penalties meted out, and resolutely cut down material consumption. Moreover, we should also vigorously carry out lateral comparisons between the economic and technological targets of enterprises of the same trade so as to promote the enterprises to strengthen business accounting, to see where they lag behind, to tap potentials, and to raise efficiency through practicing thrift.

/Fourth, keen attention should be paid to making up deficits and increasing surpluses./ All localities and departments should promptly implement the 10 measures recently issued by the Ministry of Finance and the State Economic Commission on vigorously making up deficits and increasing surpluses, persistently carry out a chief administrator responsibility system in regard to the work of making up deficits and increasing surpluses, and strengthen specific guidance. The practice of "contracting responsibility for one's losses, receiving no subsidies for the portion of losses in excess of fixed quotas, and retaining the portion of reduced losses for his own use" or the practice of contracting responsibility for progressively reduced losses should continue to be implemented in the loss-making units prescribed in the state plan. Such units which manage to turn losses into profits in a specific year are allowed, apart from receiving the amounts of subsidies for their losses checked and ratified that very year and retaining all the profits they created the same year at their own disposal, to share in proportion the profits they turned out in the second and third year following their profit-making year with financial departments. The units which incur losses outside the limits permitted by the state plan will not be subsidized and the amount of losses will be made up by directly deducting the retained profits and other officially-owned funds of the departments in charge of the units. Various localities are encouraged to allot in advance the loss targets for one to three years or lend them to the enterprises turning out readily marketable goods which are badly needed by society which suffer losses in operation due to their backward equipment so that the latter can speed up their technological transformation. The enterprises which have failed to make up deficits for a long period of time should be closed down, suspended, merged with other enterprises, diverted to other lines of production or associated with economic combinations according to their own merits so as to ensure the completion of the plan to turn losses into profits.

/Fifth, every effort should be made to ensure safety in production./ Injuries and deaths among staff members and workers have been growing in number since the beginning of this year. All localities and departments are urged to earnestly analyze the causes for this state of affairs and take measures to effectively avoid or reduce the occurrence of accidents.

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CSO: 4006/3

HE ZHUKANG INSPECTS PRODUCTION, RELIEF WORK

HK160253 Zhengzhou Henan Provincial Service in Mandarin 2300 GMT 14 Sep 86

[Text] This year, an exceptionally serious drought has emerged in our province. On 13 and 14 September, accompanied by Hu Shudian, Mayor of Zhengzhou city, Governor He Zhukang went to seriously stricken counties, including Maxian and Dengfeng counties, one after another to inspect production and the work of providing disaster relief. He also went to some townships where the disaster situation is serious and people's livelihood difficult, to visit the victims. He studied measures for production and providing disaster relief with leaders of the counties and townships. He put forward his views on the current work of providing disaster relief.

He demanded: all places must provide for and help themselves by engaging in production and do well in providing disaster relief. It is necessary to seriously organize the disaster areas to develop the commodity economy. According to our local resources, we must take such measures as are suitable to our local conditions, give play to our strong points, and develop diversification. At the same time, we must seize the season for production and promptly replant some vegetables. We must organize the masses to help each other. Regarding widowers, widows, those whose limbs are disabled, family members of soldiers and martyrs, and households enjoying the five guarantees who are unable to help themselves, governments at all levels must really make good arrangements for their food and shelter and guarantee their livelihood. It is essential to seriously organize the victims to work in city, county, township, and village enterprises. When the victims work in the enterprises, urban areas must help them in every possible way. We must ensure that every household has work to do and has income this winter and next spring and that they can make up for their losses caused by reduced in agricultural production with income from industrial and sideline production. We must strive to ensure that in a year of a serious disaster, peasants' income will not be reduced or will not be reduced as far as possible. We must advocate that we should consume grain in a planned and thrifty way. This is very important in a year of a serious disaster.

He Zhukang pointed out: It is a foregone conclusion that production will be reduced in autumn this year. It has rained in recent days and the rain will help the growing maize. All places must mobilize the masses to seize the frost season to make preparations for sowing wheat as early as possible. The autumn crops which should be abandoned must be resolutely abandoned. We must really ensure that we can sow wheat sufficiently and well in time. We must lay a good foundation for next year's bumper wheat harvest.

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CSO: 4006/006

NEI MONGGOL CHAIRMAN ON FOREIGN ECONOMIC, CULTURAL EXCHANGES

SK110544 Hohhot Nei Monggol Regional Service in Mandarin 2200 GMT 10 Sep 86

[Text] At a meeting of principal leading comrades of various committees, offices, departments and bureaus under the regional government held on the morning of 9 September, Bu He, chairman of the region, pointed out that in developing the region's foreign economic and cultural relations, it is necessary to proceed from the reality of the whole region, and have an overall plan, and a unified guiding principle.

Comrade Bu He said: Over the past few years, the region's foreign economic work has yielded certain results but its rhythm is still rather slow. We should enhance our sense of urgency. All departments should lose no time in attending to the work relating to opening to the outside world and enlivening the domestic economy. At present, many of our cadres still do not have sufficient knowledge on enterprise management, economic relations and trade. They should step up study. They should also make great efforts to master foreign languages. Comrades engaged in relevant work, in particular, will face difficulty in doing their work if they do not know several foreign languages.

Comrade Bu He pointed out: Today when the international market is full of competition, our country is very attractive to developing countries. In the past few years, we carried out more economic and cultural exchanges with Japan and the United States. In the future, we should develop more relations with east and west European countries. We may develop more small and medium-scale projects to promote Nei Monggol's economy.

Speaking on the region's work for present and for next year, Comrade Bu He stressed: We should conscientiously grasp this year's industrial development, make a success of anti-disaster and relief work, and strive to fulfill the target of doubling the 1978's industrial and agricultural output value in 1987.

Comrade Bu He also introduced the participating comrades to the major situations and his impressions concerning his visit to Austria last July.

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CSO: 4006/006

SHANGHAI FOLLOWING GUIDELINES OF SEVENTH 5-YEAR PLAN

Shanghai WEN HUI BAO in Chinese 27 Apr 86 p 1

[Article: "Shanghai Will Follow the 10 Guidelines Given in Seventh 5-Year Plan"]

[Text] What are Shanghai's policies and main tasks in its Seventh 5-Year Plan? As pointed out by Mayor Jiang Zemin in his "Draft Report on the Seventh 5-Year Plan for Shanghai's Economic and Social Development" delivered at the Fifth Session of the Eighth Municipal People's Congress, Shanghai's Seventh 5-Year Plan has been formulated to meet the general requirement for building the type of socialism with Chinese characteristics in line with the general principle of invigorating the economy at home and opening the country to the outside world. It is also based on the strategic requirements for Shanghai's economic development and compiled according to the proposals for Shanghai's Seventh 5-Year Plan. During the Seventh 5-Year Plan, Shanghai's economic and social developments will proceed according to the following important policies and principles:

---Give priority to the reform and actively promote economic restructuring so that reform and construction are adapted to and will promote each other.

---Resolutely control the scale of investment in fixed assets, properly readjust the investment pattern, and insure the completion of key projects.

---Give top priority to the improvement of economic results, especially the improvement of product quality, and correctly handle the relationships between economic results and growth rates and between quality and quantity.

---Step up urban infrastructural construction and gradually combine the transformation of the old with the construction of the new downtown areas.

---Further open Shanghai to the domestic and foreign markets, increase our foreign exchange earning capacity, and combine Shanghai's production and construction with the expansion of its economic and technical exchange with the foreign countries and the other parts of China.

---Reform the education system and scientific research, step up intellectual development, and promote scientific and technological progress.

---Adopt advanced technologies extensively and accelerate the transformation of traditional industries and the development of new industries selectively.

---Systematically readjust the production structure and accelerate the development of tertiary industries.

---Further improve the material and cultural lives of the urban and rural population as production and labor productivity increases.
---Step up the development of socialist spiritual civilization while promoting promoting socialist material civilization.

There are many things to be done during the Seventh 5-Year Plan, so priorities must be set. According to the proposals of the municipal party party committee, we should pay special attention to the following three major tasks:

1. Step up construction of infrastructure and improve the environment for investment and daily living.

2. Expand our economic and technical exchange with foreign countries and the other parts of China, make good use of foreign funds and increase our foreign exchange earnings through exports.

3. Accelerate the progress of science and technology and the training of personnel so as to promote economic prosperity and new developments in various undertakings.

These three major tasks will provide the key to building Shanghai into a modern socialist city with an open economy and diversified functions as its characteristics.

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CSO: 4006/1093

BRIEFS

SHANDONG CONFERENCE'S DEVELOPMENT GOALS--Jinan, 6 Sep (XINHUA)--Shandong Province, on China's east coast, plans to develop its energy, traffic, textile, and chemical industries during the 7th 5-Year Plan (1986-1990). According to a provincial conference held here to plan capital construction, the budget has allocated 30 billion yuan (8.1 billion U.S. dollars) to construct 66 main projects and 17 projects of technological renovation. The province is expected to have an annual production capacity of 233 million bbl of oil, 20 million tons of coal, 490,000 tons iron and steel, and 2.8 million tons of cement, when the projects are completed. China's new 5-year was adopted at the annual session of the National People's Congress earlier this year and all provinces, municipalities and autonomous regions have also made plans on local social and economic development in line with it. [Text] [Beijing XINHUA in English 1007 GMT 6 Sep 86] /9599

CSO: 4020/2

BRIEFS

GANSU AUGUST INDUSTRIAL OUTPUT--Gansu's industrial output value in August was 1,063,390,000 yuan, an increase of 46.49 million yuan over the same month last year. The output value this year up to the end of August was 8,136,920,000 yuan. [Summary] [Lanzhou Gansu Provincial Service in Mandarin 2200 GMT 6 Sep 86 KH] /12913

MONTHLY INDUSTRIAL OUTPUT VALUE--According to the latest information released by the Municipal Statistical Bureau, Shanghai's total industrial output value in August was 7.268 million yuan, topping July by 4.4 percent and last August by 3.9 percent. The output value for the first eight months was 56,446 million yuan, 2.1 percent more than the same period last year. The accumulated output of 67 of the 106 major products or 63.2 percent, rose over the same period last year. The growth rate of all marketable light industrial goods, energy sources, and products of raw and semi-finished materials industry, as well as electrical and mechanical engineering equipment needed by key state construction projects, was larger than that of the total industrial output value. [Text] [Shanghai City Service in Mandarin 0000 GMT 5 Sep 86 OW] /12913

HENAN INDUSTRIAL OUTPUT--Henan's industrial output value in August was 2.886 billion yuan. This was 11 percent more than in July and 10.9 percent more than in August last year. Total output value from January to August this year was 21.5 billion yuan, a rise of 3.2 percent over the same period last year. [Summary] [Zhengzhou Henan Provincial Service in Mandarin 2200 GMT 10 Sep 86 HK] /12913

HUNAN INDUSTRIAL PROGRESS--Hunan's industrial output value from January to August was 19.88 billion yuan, an increase of 8.3 percent over the same period last year and slightly higher than the average national growth level. Output value in August rose by 2.5 percent over July and was 15.8 percent more than in August 1985. Growth in light and collective industry has been faster than that of heavy industry and industry owned by the whole people. [Summary] [Changsha Hunan Provincial Service in Mandarin 2300 GMT 13 Sep 86 HK] /12913

CSO: 4006/3

LIAOWANG VIEWS NATION'S ECONOMIC SITUATION, REFORM

HK221135 Beijing LIAOWANG in Chinese No 36, 8 Sep 86 p 4

[LIAOWANG commentator's article: "Much Thought is Needed to Attain Higher Plane"]

[Text] More than half of the year has passed. What will be the general economic situation of this year as a whole? This may be summed up in the following verses:

New steps have been made in the reform, which is advancing steadily,

Production is increasing and becoming normal in the main;

The scope of capital construction is still too large, and efficiency is low,

Much thought is needed to attain a higher plane.

Of course, economic affairs are very complicated and cannot be fully and accurately expressed by only a few verses. These summaries are certainly not enough for our readers who are interested in this matter. So, let us look at the following facts.

In the reform of the economic structure, a comparatively big step was already made last year. This year, we have implemented the policy of "consolidating, assimilating, supplementing, and improving" and, apart from perfecting the existing measures of the reform, mainly grasped the development of lateral economic ties and the improvement of macro control. Very good results have been made in these respects. At the same time, in light of the situation of our economic development, the Chinese government has also put forth some new measures for the reform, which are urgently needed and bearable by our society in the current stage. They have already played an important role in mobilizing the initiative of various sectors.

In agriculture, the government has adopted a series of positive measures to stimulate grain production and strengthen the foundation of agriculture. What happened last year when grain-sowing areas were excessively reduced has already been changed. A bumper harvest of summer grain was reaped this year, with an increase of 5 to 6 billion jin over last year. The output of early rice also increased by more than 3 billion jin. Autumn grains are growing

5-Year Plan--will be removed. If the directives of the central authorities are resolutely implemented by all walks of life and all localities, it can be expected that the year 1986 will continue to be a year of steady advance toward the set goal.

At the beginning of this year, when the central authorities put forth the policy of "consolidating, assimilating, supplementing, and improving," some people felt very worried about it. They felt vexed in the face of a lot of problems caused by the excessive development in 1985 and were worrying about whether the reform measures can be further implemented. They were also anxious about whether the goal of the Seventh 5-Year Plan could be attained. In some places far away from China, some foreign newspapers and journals made all kinds of pessimistic predictions, even saying that China's reform would be "abandoned" and "stopped," due to the "great difficulties it has encountered." However, just more than half a year has passed, and the facts incontrovertibly prove that the policy decisions of the CPC and the Chinese government are wise, the willpower of the Chinese people is amazing, and the determination of the Chinese nation in reform and their desire for development are firm. Now the worried looks on people's faces have been replaced by greater confidence and unremitting efforts. Some foreign newspapers and journals also began to remake predictions and judgments. They began to admit that China's reform is "steady," "solid," and "unshakable," and that "great" achievements have been made in China's current economic development. Those views that China's reform will be "abandoned" and "stopped" have almost disappeared.

China is a large country with a population of more than 1 billion. It is certainly very difficult to run such a big country. We must never overlook the difficulties. However, what is as important as that is that since China is a big country, and once it is called into action and moves along the correct track, it will have a great pounding force that can never be obstructed by any difficulties. This is the secret of observing Chinese problems correctly. A quick response to certain errors or unexpected happenings and a quick solution to these problems also show that the Chinese government has already had the initiative in hand in handling economic affairs. This is also an important matter to be noticed when observing the Chinese problems.

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CSO: 4006/011

JOURNAL'S VIEWS ON CURRENT ECONOMIC SITUATION CITED

HK210254 Beijing XINHUA Hong Kong Service in Chinese 0147 GMT 21 Sep 86

[Text] Beijing, 21 September (XINHUA)--The overseas edition of LIAOWANG magazine to be published tomorrow carries an article analyzing China's current economic situation and proposing countermeasures for solving the problems.

The signed article, entitled "Analysis of the Current Economic Situation and Countermeasures," says that China's current economic situation is relatively stable and results are already evident in resolving the problems of excessive growth in demand and overheating of the economy. The excessively rapid development of industry has slowed, and the January-July growth rate was 5 percent. There are ample supplies of retail commodities in society, and market prices are relatively stable. There has been a big increase in urban and rural savings deposits, the situation in withdrawing currency from circulation is relatively good, and some relaxation has started to appear compared with the shortages of last year.

The article points out that there are also a number of factors for instability in China's economy at present. Investment in fixed assets in units owned by the whole people totaled 48.9 billion yuan in the first half of the year, a figure that was still too high, and bank cash payments for wages during the period rose by 20.5 percent compared with the same period last year. Hence, viewed from the angles of the growth in investment and consumption funds, the pattern of "excessive distribution" of the national income has not changed. Due to the excessive distribution of the national income for several successive years, a number of "undercurrents" have formed in the national economy. These are mainly manifested in declining economic results, a continuing shortage of mobile capital, foreign trade imports exceeding exports, and slow growth in financial revenue.

In view of this, the article proposes countermeasures for fundamentally eliminating the factors for instability. These countermeasures are: the focus in economic leadership work should be shifted to improving and strengthening macroeconomic control and restraining total social demand, in order to create a relaxed economic environment for reforms; fresh stock should be taken of finances, credit, materials, and foreign exchange, and efforts should be made to achieve all-round balance in the national economy on the basis of balance in each component; the demand for capital should be kept under control, and this first means controlling the scale of construction; the national economy should be readjusted; and the investment structure and the enterprises should be seriously readjusted.

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CSO: 4006/011

BENEFITS OF ECONOMIC REFORMS VIEWED BY REGION

OW211112 Beijing XINHUA in English 0749 GMT 21 Sep 86

[Text] Beijing, Sep 21 (XINHUA)--While the eastern part of China enjoys the highest cash income in the country, the western part is the biggest beneficiaries of the current economic reforms.

This is a conclusion of a recent survey of 17,000 urban families in the eastern, central, and western China conducted by the State Statistics Bureau.

The eastern part covers eight coastal provinces and three municipalities of Beijing, Tianjin, and Shanghai. The central part includes Heilongjiang, Jilin, Shangxi, Inner Mongolia, Henan, Hubei, Hunan, Anhui, and Jiangxi. And the rest of the country belongs to the western part.

According to the survey, the average per capita family income in urban areas as a whole in 1985 was 752 yuan, 10.6 percent higher in real terms than the preceding year. The average figure for the eastern part of China was 810 yuan, 158 yuan or 24 percent more than in 1984. But the price index for living expenses in this part of the country rose by 13.3 percent. The real increase in the family income disposable as living expenses rose by 9.6 percent.

The average per capita family income in the same year in the central part of China was 655 yuan, 19.1 percent lower than the eastern part while the figure for the western part was 708 yuan, 12.6 percent lower than the eastern part. But the price level for living expenses in these two parts of the country rose by 9.8 percent and 9.5 percent, respectively. Price rise factor allowed, the real increase in the family income disposable as living expenses was 11.8 percent and 11.6 percent, respectively, both higher than the eastern part of the country.

In terms of family wealth, the eastern part of the country leads the way while the western part is slightly more than the central part.

The factors contributing to the differences are: 1) The eastern part of the country leads the way in economic reforms, thus bringing prosperity to the region. 2) The regional differences in pay are big, with the central part of the country being the lowest. 3) With the deepening of economic reforms, the eastern part is able to provide more employment opportunities than the central and western part of the country.

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CSO: 4020/7

PRIVATE SECTOR DEVELOPMENT POLICY REAFFIRMED

OW231646 Beijing XINHUA in English 1623 GMT 23 Sep 86

[Text] Beijing, Sep 23 (XINHUA)--China will not change its policy of developing the private sector of the economy, said Ren Zhonglin, director of the State Administration for Industry and Commerce.

He told a meeting of the preparatory committee for the establishment of the National Self-Employed Association today that to develop private industry and commerce is a long-term policy of the party and the state. He called on all government departments to give active support to the private sector of the economy and help them solve difficulties.

He said that the private sector as a whole has been developing steadily and the number of people involved in this sector has topped 20 million.

But in the first half of this year, he said, there was a downward trend, with the number of households engaging in industry and commerce reduced by 360,000 and the number of people involved reduced by 460,000.

He said that there were many reasons for the reduction. Apart from the necessary cuts, shortage of the supply of raw materials, and the operational sites and the changes in people's thinking were also among them, he said.

The present number of private industrial and commercial establishments was far from enough, he asserted. In many places, there are serious difficulties in eating out, making clothes, and having things repaired. It is, therefore, imperative to continue efforts to develop the private sector of the economy while boosting the public sector of the state and collectives.

He called on all the self-employed associations in 26 provinces, autonomous regions, and municipalities to help the government by supporting the private businesses and reflecting their opinions and demands. At the same time, he said, such businesses should improve their services to the people.

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CSO: 4020/7

ECONOMIC MANAGEMENT

SURVEY NOTES NEW COMMODITY CIRCULATION SYSTEM

OW242035 Beijing XINHUA in English 1642 GMT 24 Sep 86

[Text] Beijing, Sep 24 (XINHUA)--Groups of commercial firms, wholesale systems centering on major cities and sales networks of industrial company groups will constitute the "three pillars" of China's future commercial circulation system.

The state commission for restructuring the economy has based this conclusion on a recent survey of major state-run commercial businesses across the country.

According to the survey, the establishment of big commercial firms based in major cities is regarded as a breakthrough in the on-going reform of the country's commercial management system.

A commission official said, "This practice has proved to be effective in breaking down regional barriers in commodity circulation caused by administrative divisions.

The survey shows that some major cities have made great strides in promoting cooperation between industrial and commercial firms, between agricultural producers and commercial firms and between commercial firms themselves.

Some principal firms have improved their services and expanded their business scope through the reform and cooperation with their counterparts elsewhere. A typical example is the Nanfang bazaar, the leading department store in the Guangdong provincial capital of Guangzhou.

The bazaar has opened four subordinate stores in Guangzhou and has forged joint sales ties with stores in Beijing and other big cities. It has also organized a commercial group involving 147 industrial manufacturers and commercial firms throughout the country.

The survey also shows that another result of the reform is the opening of new wholesale firms run by the state, collectives and individuals over the past few years. Previously, there were only state-owned wholesale companies in China.

The official said that these new firms are helping speed up commodity circulation and promote competition to the benefit of consumers.

Moreover, industrial groups led by key businesses have appeared. Members cooperate in scientific research, production, marketing, and financial management.

With sufficient funds, sophisticated technology and a competent marketing force, they are able to manufacture and distribute a complete range of products and equipment.

Meanwhile, they have set up sales networks in China and abroad to market their products and accept orders, forming a new commodity circulation channel for China.

Other industrial firms either join the sales network of the groups, put their goods on the wholesale market or send their products directly to retail markets.

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CSO: 4020/7

SICHUAN VICE GOVERNOR ON INDUSTRY, COMMUNICATIONS

HK080535 Chengdu Sichuan Provincial Service in Mandarin 2200 GMT 6 Sep 86

[Text] On 5 September the provincial government held a forum on current focal points in propaganda work in the industrial and communications front. Vice Governor Ma Lin gave a report on arrangements for the province's industrial and communications production in the last four months of this year. He said that September and October are the golden season for developing industrial and communications production. We must seize this good opportunity, grasp in an all-round way speed, efficiency, quality, and reserve strength, and strive to fulfill this year's plan for industrial production. In this connection, we must firmly grasp the following six tasks:

1. We must further implement various policies of enlivening enterprises and use the policies to unleash the initiative of enterprises and their staff.

2. We must do a good job in using the province's power supply and natural gas so that the province's limited power supply and natural gas can be brought into full play.

3. We must vigorously increase the production of marketable products, readjust product mix, and develop more new products.

4. We must improve marketing and circulation channels so as to turn products into commodities and commodities into cash as soon as possible.

5. We must encourage the masses to offer advice, strengthen management, and enhance technological transformation so that enterprises can have vitality and reserve strength.

6. We must strengthen ideological and political work, and properly conduct ideological education with staff and workers so as to promote industrial and communications production.

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CSO: 4006/011

FINANCIAL MINISTER'S SPEECH ON CONSTRUCTION BANK

Beijing CAIZHENG YANJIU [FISCAL SCIENCE] in Chinese No 4, 28 Apr 86 pp 1-5

[Speech by Wang Bingqian [3769 2671 0051] at the National Conference on the onstruction Bank, edited from minutes by Liu Dewei [0461 1795 4850] without the speaker's examination]

[Text] The Construction Bank's national conference has lasted 9 days. We have summed up the work in 1985 in a realistic way, and decided on the plan of action for 1986. After serious discussions, we have reached a common understanding. This meeting was very successful.

Despite the arduous tasks and the many difficulties it confronted in 1985, the Construction Banks has worked hard, and with success, to improve the overall situation. All reforms have made headway to varying extents. The targets set in the budget for capital construction expenditures and in the plans for credit receipts and payments were fairly satisfactorily met, and this contributed to the balance of the state revenues and expenditures and helped the bank control its credit and issuance of currency. Of course, there are still certain shortcomings, and we must carefully sum up our experiences to make improvements.

Now that the tasks for 1986 has been determined at the meeting, I would like to express some views on ways to accomplish them.

I. Strengthen and Improve Macroeconomic Regulation, Continue To Control the Scale of Fixed Asset Investment

To solve the problems of excessive fixed asset investment, and excessive increase in bank credit, consumption funds and currency issuance, the State Council has held four consecutive meetings of provincial governors since 1985 to reach a common understanding, and adopted a series of measures including the combined use of economic, legal and administrative means to strengthen macroeconomic control and management. As a result, some of these problems have been gradually solved, and some are now being solved. The excessive rate of industrial growth has been gradually reduced; the investment in capital construction has been brought under control; the control over consumption funds and credit has shown initial success; and in state finance, revenues and expenditures have been balanced, leaving a small surplus revenue. This situation is very helpful to economic stability and the promotion of the structural reform. However, we must also note that in the current economy, the elements of instability have not been completely eliminated, and the trend of the total demand exceeding the total supply in the society has not been reversed. Excessive fixed asset investment is still the crucial issue, but the way to solve the problem of excessive increase in extra-budgetary investment in fixed assets is far from ideal. In 1985, the total investment in the fixed assets of state-owned units was planned, at the beginning of the year, to be 116 billion yuan, of which, 165.2 billion yuan, a 39.4 percent increase over the previous year, was actually used. This rate of increase was far higher than the 16.4 percent growth rate of gross value of industrial and agricultrual output and the 12.3 percent growth rate of national income. In 1986, investment in the fixed assets of state-owned units was planned to be X yuan. This figure was set on the basis of a unduly high investment in 1985, and the slightest relaxation of efforts on our part may intensify the imbalance of the state's financial and material resources. Therefore, the task of controlling the scale of investment in fixed assets is quite important in 1986, and we must be fully aware of this situation. This issue has an important bearing on the overall situation and affects the sustained, coordinated and stable development of the national economy as well as the smooth progress of various structural reforms. It must not be taken lightly.

While controlling the general scale of investment, we must also carefully readjust the investment pattern. The main purpose of this readjustment in 1986 is to revise the investment ratios for energy, transportation and the basic industries which were too low, and to deal with the problem of excessive investment in the processing industries and nonproductive construction. We must have the determination to straighten things out with regard to the projects now under construction by either continuing or halting the projects and to save more financial and material resources for the key projects. Without this determination, it will be difficult for the investment pattern to be readjusted, and the work will be much harder in the next several years.

It is the unshirkable responsibility of the Construction Bank to strengthen and improve the macroeconomic control over investment. For a long time, the Construction Bank at every level has played an important role and accumulated good experiences in the equitable and frugal use of funds and in promoting the development of various construction projects according to state plans. In the past several years, when investment in fixed assets was increasing rapidly, it also did a good job in keeping the state's budgetary investment basically within bounds and in further strengthening the management and supervision over extra-budgetary investment. It also took the initiative of making reports and suggestions to the relevant departments while managing the funds and supervising their use. This shows the importance of the Construction Bank's function in strengthening and improving the macroeconomic control. I hope the Construction Bank will continue to preserve these fine traditions, achieve a unity of purpose, bring into play its strong points, overcome the existing difficulties, make every effort to cooperate with the departments concerned through counsel and advice, and make new contributions to the consolidation and development of the present excellent situation which has not come easy.

To control the scale of fixed asset investment, we must first effectively control budgetary construction funds. Budgetary investment is one of the major tasks handled by the Construction Bank, and most of the funds are used in the state's key construction projects. The proper or improper use of these funds not only affects the general scale of investment, but also produces profound and long-lasting effects on the national economic development. Therefore, we must all actively participate in deciding on the plans, in determining the number of projects and in clearing up the projects still under construction. We must also carefully evaluate the projects and arrange for the allocation of funds each year according to state plans. At the same time, we must also carefully control extra-budgetary investment. According to State Council regulations, all capital construction investments are under the unified control of the Construction Bank. The Construction Bank must, therefore, faithfully fulfill its duties and responsibilities. It must, on the one hand, strictly abide by the plans in the supply of state funds and in supervising their use so as to avoid duplicate or blind construction to save more funds for the projects urgently needed by the state. On the other hand, it must follow the state plans and policies in granting loans. At present, when the tendency of increasing investment has not been halted, we must all have a sober mind in guarding against excessive credit which would upset the credit balance. The state is now working out its credit plans, and the contradiction between the demand for and the supply of funds is fairly serious. Under such conditions, we must be particularly careful in preventing the practice of increasing currency issuance as a means of enlarging the investment scale. In granting loans, we must firmly adhere to the principle of keeping our expenditures within the limits of our income and practise the system of dual control by credit plans and investment plans. In the grant of loans, we must bear in mind the overall situation and choose those projects which support the development of the energy, transportation, raw and semifinished materials and other basic industries as well as the readjustment of the production structure. We must be sure that the loans for renovation and transformation are truly used on the updating of equipment, the development of new products, and export of products for foreign exchange, and of the diversion of funds from renovation and transformation to the expansion of the capital construction scale.

II. Pay Close Attention to the Management and Supervision of Construction Funds, Improve the Investment Returns

In capital construction, the present phenomena of long construction periods, high construction costs and poor investment returns have not been fundamentally changed. One of the important tasks in 1986 is to strengthen the management and supervision to improve investment returns. In improving investment returns, the Construction Bank, in my opinion, should carefully attend to its work in both finance and credit handling.

In finance, it must fully exercise its functions of financial management and supervision over the use of construction funds throughout the entire process from the determination of projects and the beginning of construction to the completion of work and the acceptance check. Although the Construction Bank is now managed as an enterprises, the method of its supervision over the use of construction funds, which is an important function authorized by the state, has not been changed. The budgetary investment and the local investment in fixed assets that are managed by the Construction Bank amount to more than 70 billion yuan each year, and these funds, if used wisely, can do a great deal to improve the investment returns. One of the important causes of poor investment returns for many years is the wrong decisions in favor of those projects for which conditions were not ripe. The result was not only waste of money but also hindrance to production. To solve this problem, the state has decided to attach more importance to the feasibility study and economic evaluation of construction projects. Hereafter, all large and medium-size projects must be evaluated by specialized consultation companies before their inclusion in the plans, and, if possible, the same procedure should be followed in examining and approving even small projects. An important part of the Construction Bank's work is to evaluate the projects. If the geographic distribution of projects is obviously irrational, the conditions are not ripe for construction, and the benefits to the society and the enterprises themselves are negligible when the projects are completed and put into operation, the bank must promptly report them to the departments concerned or even to the State Council. It must have the courage to uphold principles and to uncover contradictions and problems. Failure to make timely reports means a dereliction of duty, and reporting on the situation means the fulfillment of part of its duties.

We must strengthen the financial management of the units for whom the projects are built and of the building enterprises. This requirement must be emphasized particularly during the economic structural reform. Of course, strengthening the management does not mean overly rigid control. On the other hand, we should let the enterprises make full use of their own initiative provided the state's policies, decrees and rules and regulations are followed. You all are experienced and have done good work in financial management. According to statistics, in 1985, through the examination of budgets and final accounts of construction projects, counter checks, and on-the-spot inspections, the Construction Bank stopped the payment of more than 3 billion yuan for various unjustifiable expenditures. This was a great achievement. The general financial and taxation check-up conducted in 1985 revealed not only many instances of law violations, but also certain weak links in the system of our financial management. In 1986, the Construction Bank must increase its efforts in strengthening the financial management, exercising strict financial supervision, and strictly enforcing financial and economic disciplines. It must boldly deal with any disruption of the state's financial and economic systems with a sense of responsibility to not only the state, but also the cadres. The Construction Bank must exercise great care in the examination and approval of financial plans and final financial accounts and in supervising payments, and resolutely stop any disruption of the state's financial and economic systems. It must also assist the departments in charge in deciding on financial plans, tapping the potential of funds, preventing over-stocking and waste, and managing and using funds efficiently.

The management of construction funds should be focused on the control of the state's key construction projects. The success or failure of these projects has a bearing on the development of the national economy in the 1990's, and on the major issue of an economic takeoff. Because this point is clearly understood by everyone, I will not dwell on it. In the Construction Bank connference held in 1984, I mentioned that the bank's work should be focused on the key construction projects, and that the quality of management in these key projects should serve as the criterion for the evaluation of the bank's performance. I should still continue to stress this point. In the past 2 years, the Construction Bank in various localities has done a great deal of solid work in the management of key projects as shown by the establishment of many new and adequately staffed agencies. All the bank's cadres and workers engaged in these key projects have worked throughout the year in worksites where living conditions are fairly harsh. They were not afraid of the difficulties and continued to work diligently, giving no thought to their personal comfort or discomfort. They have produced very good results in expediting the work, reducing the investment, and raising the level of their management. I hope everyone will redouble their efforts to further improve the management of the state's investment in key projects and thereby improve all their investment returns.

In handling credit, we must strengthen the control over loans and choose projects carefully to ensure these loans will produce good economic results. In the past several years, the Construction Bank's loan service has developed very rapidly. In 1985, aside from those extended in line with certain financial policies, the loans granted by the bank out of the savings deposits totaled more than 10 billion yuan. The state planned to raise 50 billion yuan during the Seventh 5-Year Plan period, averaging 10 billion yuan each year, through bank loans for capital construction, and the major share will be borne by the Construction Bank. Therefore, comrades of the bank must carefully study and handle the matter of expenditures to be certain that loans will produce good economic results. In the course of discussions, it was revealed that the Construction Bank lacked decisionmaking power in granting loans. This matter has already received the attention of the central leading comrades and the problem will be solved gradually, although a complete solution will take some time. Banks must have their decisionmaking power in granting loans, but, more important still, they must use this power properly. They must adhere to the correct orientation of loans, choose projects carefully, and enable the loans to produce good results. The important part of the bank's work in granting loans is, first, to have an accurate evaluation of the projects on which the loans will be used. Before granting loans in the future, we must first conduct an evaluation and have both the technical and the economic confirmation before including the projects in the state plans. If the evaluation shows that the economic results will be unsatisfactory and that it will take too long for the redemption of any loan, the application for loans can be rejected. Second, we must improve the system of examining and approving loan applications as well as the system of responsibility so that responsibilities and duties are all clearly spelled out.If these two jobs are properly handled, I believe the Construction Bank's level of credit management will be greatly raised.

Having pointed out the need to strengthen the management of funds with regard to both finance and credit, I now take the opportunity to talk about the Construction Bank's functions. According to the actual situation of investment management in China, the Construction Bank has the dual function of handling both government and bank funds. This dual function is decided by the different natures of government funds and bank funds, both being under the charge of the Construction Bank. In taking charge of government funds, it is responsible for the allocation of funds for geological surveys and other undertakings, and for the financial budgets and final accounts of the units, for whom the projects are built, and the building enterprises, beside paying tens of billions of yuan for capital construction each year. It also has to exercise some of the rights of examining and approving budgets and final accounts on behalf of the financial departments. This was the way the bank operated in the past several decades; it is the same now and will remain the same in the future. Hereafter, if the local financial departments need funds for capital construction, renovation or transformation, they should entrust the handling of funds to the Construction Bank. Both parties should cooperate closely and support each other so that they can jointly manage and use the funds to good advantage. In the past several years, besides handling government funds, the bank has also developed banking activities by taking deposits and extending loans. With credit funds at its disposal, it was able to exercise its banking functions through efficient management of these funds. On the whole, the Construction Bank must manage both the government and the credit funds well and make full use of its dual function without neglecting either of them. As for the question of leadership over the Construction Bank, Document No 4 (1983) of the State Council's Staff Office has clearly stipulated that the Construction Bank is under the dual leadership of the Ministry of Finance and the People's Bank of China, with the former in a higher position; that in financial matters, it should accept the leadership of the Ministry of Finance; and that in banking matters, it should accept the leadership of the People's Bank of China. Of course, this affiliation applies only to the bank's head office, because its local branches are on the same level with the local financial bureaus and the local branches of the People's Bank of China and should maintain close relationships with them in business matters.

III. Continue To Do a Good Job in Reforming the System of Financial Management over Capital Construction Funds

The purpose of the reform in the system of financial management over capital construction funds is to invigorate enterprises and to improve investment returns. Over the past several years, the reforms in the construction industry and in the capital construction management system were ahead of others in the economic structural reform program for cities. We have gained some experiences from these reforms and achieved certain success. In 1986, the main tasks for us is to "consolidate, assimilate, supplement, and improve" the reform program and to promote what is beneficial and eliminate what is harmful to pave the way for the second step in the reform. For capital construction investment, the replacement of state allocations with bank loans is an important aspect of the reform in the capital construction management system. Experiments in the reform are still being continued. Because the supportive measures in certain quarters cannot keep pace with its progress, the reform may not be able to play its full role. However, for many projects with good economic results, the substitution of bank loans, which must be redeemed, for state allocations, which need not be repaid, is a big step forward in the right direction. Practice in the past several years has proved this point. Of course the merits of this reform must be assessed in a realistic way. When external conditions are not yet ready, the merits should not be over-estimated. The reform may play an increasingly important role when the external conditions are ready. At present, we should firmly adhere to the reform's orientation and yet squarely face the problems emerging in the course of the reform. We must study the new developments, solve the new problems and gradually bring about perfection. In the course of an all-round adoption of the system of substituting bank loans for state allocations in 1985, 95 percent of the state's budgetary allocations were replaced by bank loans, and the reform was accelerated. However, some new problems cropped up in the process. In 1986, therefore, we readjusted the scope of the substitution and kept it at 70 percent. This is a realistic approach. In the future, we must be sure that for the loan which are now used to finance construction projects, loan agreements must be signed and faithfully observed. We must also carefully watch those projects which are still financed by state allocations, and be sure that such allocations are replaced by loans, as soon as these projects are eligible for credit. At the same time, we should help the construction units practise the system of responsibility for investment so that the reforms through the substitution of loans for state allocations and the practice of system of responsibility for investment can be organically combined. We must make an effort to encourage the construction industry to adopt and consolidate the systems of public bidding and contract responsibility, to improve their management methods, and to operate in strict accordance with the regulations. The contracting units deserving some benefits should be rewarded.

IV. Develop Socialist Spiritual Civilization, Strive To Bring about a Fundamentally Better Work Style for the Party and the Bank

After the CPC National Conference held in September 1985, the secretariat of the CPC Central Committee worked out specific plans for further developing spiritual civilization and rectifying the party's work style. In December, the Central Committee also issued Document No 57, pointing out specifically the need to rectify the party's work style and to check the unhealthy trend. At the same time, some leading comrades of the Central Committee made a series of important speeches and expressed their views on the same subject. In January 1986, the secretariat of the Central Committee again held in Beijing a conference of cadres of central organs, and called on all party members and cadres of the central party, government and military organs to set good examples for the whole country in the rectification the party's work style and to strive for a fundamental improvement of the party and social conduct.

The Construction Bank's tasks are now very complex and arduous, but its foremost task is to promote the development of spiritual civilization, to rectify the party's work style, to check unhealthy trends, and to combat certain undesirable elements in our ranks, in accordance with the central committee's plans and requirements. This is the way to ensure the smooth accomplishment of various tasks. In 1985, the Construction Bank discovered and stopped certain unhealthy tendencies including the grant of loans for selfish motives, tax evasion, withholding the profits which should be turned over to the state, and laxity in discipline, thus educating all the cadres and workers and improving the work style of the party and the bank. Its work was well done and the action it took was timely and serious. As we can see from the result of the general financial and credit check-up, the cadres of the Construction Bank are mostly good, and their work style is above reproach. However, there are still unhealthy tendencies among some units and cadres, and some of them are very serious or even criminal in nature, calling for disciplinary action from the party or persecution under state law. It must be solemnly pointed out that unhealthy tendencies not only corrupt some cadres, but also jeopardize the party's prestige among the people and impair the bank's image and reputation. In stopping unhealthy tendencies in the party, we must be resolute in purpose and firm in action. There cannot be any hesitation or relaxation of efforts.

It must be emphasized that the rectification of the party's work style must start with the leading organs and the leading cadres. In the Construction Bank, it must start with its head office. When the work style of these leading organs and leading cadres has been rectified, it will be easier to solve the existing problems, because they can really assert themselves and people will listen to what they say. They will set good examples and exert a tremendous influence on the whole bank. The leading banks and leading cadres at various levels must examine themselves in light of the six questions raised in Document 57 of the State Council's Staff Office, and the problems pointed out in the recent speeches made by leading comrades of the Central Committee. They must eliminate the bureaucraticism of failing to delve into realities, to investigate and study, or to stress efficiency; the small-group mentality of misappropriating state property for use by individual units in disregard of the overall interests; the individualism of "thinking of everything in terms of money" and abusing authority for private gains; and the liberalism of lacking the sense of organization and discipline and condoning unhealthy tendencies. They must get rid of their own defects and join the broad masses to fulfill the arduous tasks in the economic reform and in the development of the two civilizations.

We must have the determination, confidence and perseverance in stopping unhealthy tendencies in order that the problems can be truly solved. Some cases may involve persons with rather complicated backgrounds, and we may encounter difficulties or resistance in the course of our investigation and discipline enforcement. However, as long as we are resolute in our purpose and have the courage to defy difficulties, the problems can be solved eventually. Any violation of law must be severely dealt with, because punishment is also indispensable as a form of education. In dealing with such problems, we must carefully implement the party's policies and be sure that certain unavoidable mistakes committed in the course of the reform must not be misconstrued as "abuse of authority for private gains." We must also preserve the cadres'enthusiasm in the reform and at the same guard against any attempt to protect unhealthy tendencies under the guise of reform. Any problem involving the personal interests of the broad masses must be handled with extra care. In dealing with the cadres with problems of a general nature, we must stress ideological education. If they have already examined themselves and corrected their mistakes, we must not continue to embarrass them. Some persons with really serious problems must be punished according to the nature of problems and the severity of the case. They should be either disciplined or prosecuted on the merits of each case, and we must never have any compassion on them.

In rectifying the party's work style and stopping unhealthy tendencies, we must improve and strengthen our political-ideological work, educate the workers in high ideals, discipline and ethics, give full publicity to the advanced models, and inculcate the spirit of serving the people wholeheartedly and developing socialist spiritual civilization. At the same time, we must set up and perfect various rules and regulations, plug the loopholes in management and thus solve the problem of having no rules to go by or failing to abide by the established rules.

The several points I have brought up are for the comrades' reference. After the conclusion of the meeting, we should all carry out the tasks set in the meeting and translate its guiding thought into action according to the actual local conditions. I believe that with the comrades' efforts, we will achieve even greater success in 1986.

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CSO: 4006/1084

PAPER CITES LIAOWANG REPORT ON FOREIGN EXCHANGE REFORM

HK200431 Hong Kong WEN WEI in Chinese 20 Sep 86 p 2

[Report: "LIAOWANG Reveals Financial Reform Trends"]

[Text] Following the development of China's economic structural reform, monetary system reform has been put on the agenda the LIAOWANG OVERSEAS EDITION, which will be published on Monday, reveals that an orderly method has been formulated with regard to foreign exchange system reform, an important link in monetary system reform which will be instituted next year and the year after. This orderly method is to enliven foreign exchange regulation, to open wider the foreign exchange market, to set up a foreign exchange reserve fund, and to strengthen foreign debt management. This weekly carries a special report on this problem.

The weekly discloses this latest news; By mid July this year, China's income from foreign exchange increased by 16.1 percent over the same period of last year and its expenditure dropped by 5.2 percent. The situation in foreign exchange payments improved in spite of an unfavorable balance of foreign trade.

This authoritative weekly reports: The various problems in the existing foreign exchange system such as the Renminbi being unexchangeable, have hampered the opening of a foreign exchange market. However, economic development over the last two years has strongly demanded the opening of a foreign exchange market. The Chinese authorities are considering carrying out a foreign exchange system reform, with a "double system" of planned management and a market mechanism as its main component. The reform will focus on invigorating foreign exchange regulation (note: what is meant is foreign exchange transactions at negotiated prices between enterprises), regulating exchange rates, working out an international payments plan, and improving the system of retention of foreign exchange earnings. Some of these measures have been gradually put into effect. For example, China began to run a foreign exchange regulatory business from October 1980, and the country has regulated foreign exchange totaling US$6 billion over the past five years. In February this year, the People's Bank of China drew up a new foreign exchange regulatory method to raise regulatory prices. Over the past few months, foreign exchange regulatory business has been in the ascendancy throughout the country. The Renminbi, which was valued a little too high, has been regulated closer to a rational level through lowering its exchange rate with foreign currencies.

It is being considered that China's foreign exchange reform will cover the percentage of retention by localities of foreign exchange earnings, foreign exchange facilities for joint ventures, and, if possible, individual participation in foreign exchange regulation.

The report reveals that after opening a foreign exchange regulatory market, China will set up a foreign exchange equilibrium fund in which the central bbank will intervene when major changes take place in exchange rates.

The report adds: China is preparing to establish a foreign exchange reserve fund which will serve as a reserve asset in coping with international payments under special circumstances. In foreign debt management, the state decided in April this year that the State Foreign Exchange Administration of the People's Bank of China will exercise unified management over foreign debt departments throughout the country . The task of the administration is to obtain information on the country's foreign exchange and foreign debts promptly, accurately, and in an all-round way, to reflect and make suggestions to the central and local departments concerned, and to exercise supervision over the work concerning foreign debts.

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CSO: 4006/011

BRIEFS

MONETARY REFORM EXPERIMENTS--Beijing, 24 September (ZHONGGUO XINWEN SHE)--The Chinese department concerned has decided to increase the number of cities carrying out monetary structural reform experiments from 5 to 12. This is an important measure China has taken to speed up its monetary structural reform. The original five cities are Guangzhou, Chongqing, Wuhan, Shenyang, and Changzhou. The seven cities in addition to these are Wenzhou, Suzhou, Wuxi, Dalian, Dandong, Ningbo, and Nanjing. These 12 cities will carry out explorations on improving macromonetary control, forming a capital market, and running banks as enterprises. Six of the twelve cities are in the Shanghai economic zone. They are Guangzhou, wenzhou, Suzhou, Wuxi, Ningbo, and Nanjing. Chairmen of 25 banks of the Shanghai economic zone held a joint conference not long ago and decided to form a short-term monetary market with bill discounts and interbank loans as its main components, and a [word indistinct] stock exchange market with the distribution and transfer of shares and bonds as its main component. As of 1 September, the fund management rights of the Shanghai branch of the People's Bank of China have been expanded. [Report: "The Number of Cities in China Carrying out Monetary Structural Reform Experiments Has Increased to 12"] [Text] [Hong Kong ZHONGGUO XINWEN SHE in Chinese 0654 GMT 24 Sep 86 HK] /12913

CHEN MUHUA SPEAKS IN XIAN--According to XIAN WANBAO, Chen Muhua, President of the People's Bank of China, inspected the Xian People's Bank on 20 September. In her remarks, she pointed out many times that the work of the banks must meet the demands of reform. The banks must become levers for regulating the economy, and establish the concept of economic results. [Text] [Xian Shaanxi Provincial Service in Mandarin 0200 GMT 24 Sep 86 HK] /12913

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BRIEFS

MINING INDUSTRY DEVELOPS RAPIDLY--Collective village and town mining enterprises have developed rapidly in Zhejiang Province in recent years, taking full advantage of the province's rich mineral resources. In 1985, the collective village and town mining enterprises and individual mining businesses in our province totaled more than 2,900. They employed 140,000 people and had a combined output value of 450 million yuan. This contributes to the province's economic prosperity as well as speeds up the hilly areas' pace to become rich. However, there is not yet a perfect legal system governing the exploitation, utilization, and protection of mineral resources. The management structure and system are also imperfect. As a result, the mining business is in a disorderly manner, including indiscriminate digging and mining, vying with state mines for mineral resources, serious environmental pollution, and a rising number of accidents. [Excerpt] [Hangzhou Zhejiang Provincial Service in Mandarin 0900 GMT 2 Sep 86 OW] /12913

XINJIANG GOLD PRODUCTION--Beijing, 6 September (XINHUA)--Gold production in the Xinjiang Uygur Autonomous Region in northwest China increased 35.6 percent in the first half of the year over the same period in 1985. The Chinese Government does not report amounts of gold production. A major source of China's gold, 56 of the 86 cities and counties in Xinjiang are rich in gold reserves, and more than 10,000 people work in its gold mining industry. [Text] [Beijing XINHUA in English 1427 GMT 6 Sep 86 OW] /12913

CSO: 4020/003

PAPER REPORTS ON NEW PRODUCTS IN NATION'S AUTOMOTIVE INDUSTRY

Beijing RENMIN RIBAO (OVERSEAS EDITION) in Chinese 14 May 86 p 3

[Article by Zhong Boyuan [6988 0130 0337]: "Achievements in Automotive Industry in Development of New Products"]

[Text] In recent years, China's automotive industry has developed more than 20 types of basically new and remodeled vehicles and 200 types of special vehicles, all of which have been duly appraised. Now, China can produce trucks, cross-country vehicles, dumpers, tractors, buses, and sedans, totaling more than 50 types in 6 categories. Among the specially remodeled vehicles are those for commercial use, for environmental sanitation and protection, for medical and public health services, for agriculture, animal husbandry, sideline occupations, fishery and forestry, and for airports, totaling more than 300 types in 10 categories.

The outstanding new products developed in China are the 5-ton "Jiefang" truck, Model CA141, produced by The First Automobile Works; the 10-ton "Huang He" truck, Model JN162, produced by Jinan Automobile Plant; and the 3-ton "Yuejin" truck, Model NJ131, produced by Nanjing Automobile Plant. These products have already been appraised by and registered with the state, and will enter the market within this year and next year. It means that the "Jiefang," "Huang He" and "Yuejin" trucks, which were the earliest vehicles, produced in the largest quantities, and most widely used, will be completely updated, and that the chapter of "remaining unchanged for decades" has ended in the history of China's automotive industry.

These new products have the following special features: First, a fairly complete line of models. Among the new products are basic model trucks, large and medium-size buses, and various remodeled vehicles for special uses. They have changed China's irrational product mix from the lack of heavy-duty models and the scarcity of light models in the automotive industry. Second, improvement in various technical and economic indicators and in performance. Fuel consumption per ton/100 km has been greatly reduced, and the speed and the load utilization coefficient increased. For example, the fuel consumption per ton/100 km of the new "Jiefang" Model CA141 is 26 percent less that of the old model, and the average cruising speed is 20-30 percent higher. In the new models, the appearance, field of vision, comfort, and maneuverability have all been greatly improved. Third, the breakthrough in the structural design. The designs of passenger buses produced in Wuxi and Wuhan are now of a higher standard with the engine compartment located in the rear portion. In developing and appraising the designs of the ordinary trucks, considerations have been given to variety of models, serialization, interchangeability, and standardization, so that in future, they can be further developed in various models of different load capacities and wheelbases, with a flat head or a long head, and for either gasoline or diesel engines. They can also be developed into various types of special vehicles.

In the past several years, the automotive trade has also imported many foreign technologies of the late 1970's or the early 1980's for designing and manufacturing vehicles. This is of great significance to the updating of our automotive products and the raising of our technological level. Technologies have been imported for manufacturing the following vehicles: Suzuki's microbus of Japan, Fiat's Iveco of Italy, Peugeot's light model vehicle of France, and the heavy-duty trucks of Steyr-Daimler-Puch AG of Austria, all in five series, in addition to the jeeps of the U.S., the limousines of West Germany, and the mining vehicles of Aweilin [phonetic] and Weibu [phonetic]. The automotive trade has also imported technologies of assembling and for producing spareparts and accessories.

Through self-reliance and on the basis of trial-manufacture, developing and importing various new models together with their spare parts and accessories, theupdating and upgrading products is now in high gear in China's automotive industry.

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CSO: 4006/1065

LATERAL TIES CONTRIBUTE TO LIAONING'S INDUSTRIAL DEVELOPMENT

Beijing RENMIN RIBAO (OVERSEAS EDITION) in Chinese 28 Apr 86 p 3

[Article by Zhou Baohua [0719 0202 5478]: "Remarkable Changes in Liaoning's Industry; Vitality of Old Industrial Bases Increased through Lateral Relations"]

[Text] Active promotion of lateral economic relations in Liaoning has brought new vitality to the old industrial bases.

To change its economic structure, Liaoning Province has since 1984 energetically developed lateral economic relations through different channels, in different forms and at different levels in an effort to make full use of its old industrial bases. By now, the province has formed economic and technical relations and signed 5,293 agreements with 27 provinces, municipalities and autonomous regions in the country. According to statistics, the completed cooperative projects have increased its industrial output value by nearly 1.4 billion yuan and yielded 230 million yuan in taxes on profits.

The continued consolidation and development of lateral economic relations have brought about these marked changes in Liaoning's industry:

---The reorganization, association and specialized cooperation of enterprises. Many enterprises have broken down the barriers between different administrative regions and departments as well as the enterprises' blockades and formed groups for specialized cooperation in the best possible way. In the province, there are now 108 multiregional and multitrade enterprise groups formed for the development of quality products, with nearly 1,000 enterprises participating. According to the statistics of only some 200 enterprises, the enterprise groups formed last year have increased their output value by 950 million yuan and their taxes on profits by 140 million yuan. Now, some enterprises have developed from a "chain" producing single-line products into enterprise groups producing complete sets of equipment and able to provide complete systems of technologies. The competitive power of their products has been greatly increased.

---A reasonable economic structure and industrial layout in the province. In Liaoning, the economic structure of most cities consisted of mainly heavy industry, and light industry is very weak. The development of lateral economic relations has helped increase light industrial production. Fuxin, known as the "city of coal and electricity," has established relations with other localities in and outside the province for economic and technical cooperation in various forms, and developed its textile, paper-making, electronic industries in addition to the production of chemicals for daily use. Last year, its light industrial output value for the first time exceeded 20 million yuan. Some other cities in Liaoning developed compensatory trade or joint ventures with the areas producing fur, leather and hemp in northwestern and northern China and thus opened many channels for the supply of raw materials. Last year, the light industrial output value of the province accounted for 34.5 percent of its gross value of industrial output. The conditions of the market for its light industrial products, always with few varieties and designs and short of supplies, are now changed.

---Acceleration of technical transformation and product updating through the tapping of enterprise potential. In Shenyang, 23 enterprise groups, formed for the development of fine-quality products, have brought into use a workforce of 200,000 persons, 89 sets of large and medium-size equipment, and 10,000 square meters of factory space, all of which may otherwise have been left idle. These resources can now create an output value of 480 million yuan each year. Through these relations, the metallurgical, machine-building, chemical and construction materials trades have also obtained funds from external sources through short-term loans, and thereby accelerated the technical transformation of the old enterprises. Up to now, the province has brought in 770 million yuan. Many large and medium-size enterprises in the province have developed new products through licensed trade, joint production and joint ventures.

---Creating favorable conditions for the establishment of long-term and stable multiregional raw material bases.

9411
CSO: 4006/1065

SHANGHAI BAOSHAN STEELWORKS REPORTED OPERATING SMOOTHLY

OW151755 Beijing XINHUA in English 1512 GMT 15 Sep 86

[Text] Shanghai, September 15 (XINHUA)--The Baoshan steelworks, China's largest industrial project with machinery imported from abroad, has been operating smoothly since trial operation began September 15 last year.

As of today, said Deputy Director of the steelworks Wang Peizhou, the complex has turned out 2.34 million tons of iron, 2 million tons of steel ingots, and 1.69 million tons of steel billets.

Meanwhile, he said, the workers and technicians have mastered and developed 160 items of new technology, which helped raise production and technological level.

"The Chinese workers have taken over the operation and management of the imported equipment of its first-phase project now, and production has been increasing every month," said Wang.

It is not common at home and abroad for a big and advanced steelworks like Baoshan to be put into operation in such a short time and maintain steady progress, he said.

Standardized operation has been intensified on its No 1 blast furnace, China's biggest, which plays a decisive role in the production of the steelworks. During the last overhaul period between August 10 and September 9, it kept its daily output at 8,263 tons, with its utilization coefficient at 2.033.

Key task teams in the complex have made many breakthroughs in the process of digesting imported technology. Of the 75 items of technological achievements many have been put to use by other steelworks in the country.

In management, the complex has made efforts in integrating foreign experience with its own conditions. Its standardized operation, regular equipment overhauls and the ways to bring the workers' initiative into play have aroused interest among other steelworks.

As an immediate goal, the complex is expected to reach its designed capacity in all fields by the end of December, the deputy director said.

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CSO: 4020/2

SMALL-SCALE ENTERPRISES

PEASANT SALESMEN'S ROLE IN COMMODITY PRODUCTION

OW130146 Beijing XINHUA in English 0134 GMT 13 Sep 86

[Text] Hangzhou, Sep 13 (XINHUA)--Individual initiative and redistribution of raw materials have greatly increased the rural commodity economy in Wenzhou City in east China's Zhejiang Province.

Some 100,000 peasant salesmen supply raw materials to 130,000 family-run household enterprises producing small household items such as buttons, hair pins, textile products and business cards, which accounted for one-third of the city's industrial output last year.

Household industry in rural Wenzhou has been so successful that economists regard it as a way--the "Wenzhou model" as they call it--leading peasants to prosperity.

"These salesmen have played a decisive role in promoting the development of the economy in the area," said Lu Shengliang, the mayor of the city.

Their efforts have helped the scattered, small-scale household enterprises overcome limitations, he added.

The salesmen, many former craftsmen who have travelled extensively, also spread market information and help run 415 peasant markets and 66,800 shops and stands in an area covering 11,000 square kilometers.

"Owing to their help, my workshop can exist and develop," said an owner in the Yishan District, a famous production base for regenerated textile products, where more than 20,000 family workshops annually turn out products valued at more than 100 million yuan (27 million U.S. dollars).

The salesmen buy tons of scraps and raw materials for the workshops, from chemical fiber plants and garment factories in 28 provinces, municipalities, and autonomous regions each year and sell the products to workshops all over China, especially to remote and mountainous areas in northwest and southwest China.

"The peasant salesmen have actually formed a non-governmental economic circulation network," said noted sociologist Fei Xiaotong after a visit to Wenzhou. "It is an all-pervasive network bridging the producers and consumers."

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CSO: 4020/7

SMALL-SCALE ENTERPRISES

GUANGXI REGULATIONS ON TOWNSHIP ENTERPRISES

HK160105 Nanning Guangxi Regional Service in Mandarin 1000 GMT 8 Sep 86

[Excerpts] On 30 August, the regional party committee and regional people's government formulated regulations on developing township enterprises. The regulations demand that all places unify their understanding, correctly handle the relationship between the management of township enterprises by corresponding departments in charge and strengthen guidance by administrative departments, further define the scope of the management of township enterprises, and give preferential tax treatment.

The regulations points out that it is necessary to further define the scope of the management of township enterprises. In the industrial and commercial administration of township enterprises, township enterprise management departments are to be responsible for the inspection and approval of the operation of township enterprises. In coordination with environmental protection departments, county township enterprise management departments must inspect the work of environmental protection. Industrial and commercial administrative departments must be responsible for examining and determining the nature of enterprises, issue business certificates, and protect lawful operations, rights, and interests. They can receive certificate and registration fees and market stall fees in accordance with regulations.

In the management of the county, township, and village construction trade, township construction enterprises are to be managed by corresponding township enterprise management departments. Urban and rural construction departments must be responsible for giving guidance on aspects of rural construction enterprises' construction, quality control, safety in production, and technological training.

In rural collective and individual mining, township enterprise management departments at all levels must carry out organization and management. Units or individuals who engage in extraction must submit reports to county or city township enterprise management departments for the latter's views. County mineral product management departments will issue mining permits to them. It is necessary to do well in procuring and selling mineral products. Gold and silver under the state monopoly control must be procured by the units specified by the state. Crystal and tin under the region's monopoly control and mineral products to be procured by the state must be procured, transported, and sold by mineral product companies, people's mineral stations, and township enterprises' supply and marketing departments. No units and individuals are allowed to carry out this business without approval.

In collecting township enterprise management fees, the management fees of the enterprises including rural individual industrial and commercial enterprises, construction enterprises, and mining enterprises, which are under the control by township enterprise management departments, are to be collected by township enterprise management departments. The majority of the management fees must be retained by townships and counties as management and service charges. No other departments and units shall collect management fees from township enterprises. People's governments at all levels must seriously investigate and curb the indiscriminate collection of fees from township enterprises.

The regulations put forward the issue giving preferential tax treatment to township in enterprises. Effective from the date of their operation, all new township and village collective industrial enterprises are exempt from income taxes for three years and those which provide labor are exempt from business taxes for three years. After the expiry of this period, those which still encounter difficulties in paying taxes can submit reports to tax departments for a reduction or remission of income taxes for one to two years. The regulations on exemption from taxes are also applicable in township and village collective industrial enterprises which incurred losses before 1985 and which have shifted to other types of production with approval.

The taxes of the above-mentioned township collective industrial enterprises which are reduced or remitted must in principle be returned to the enterprises by township enterprise offices to develop production and are not allowed to be distributed among individuals or to be appropriated for other purposes. The fixed assets purchased by township enterprises with the taxes reduced or remitted by the state must be used by township enterprises, are owned by township authorities, and cannot be sold off by enterprises at will.

Township and village collective enterprises must generally implement the system of the contract [words indistinct] ability with payment linked to output and the [word indistinct]. Piece work wage without [word indistinct] for labor protection and welfare work. A bonus tax is not temporarily levied.

The advertisement fees of township and village collective enterprises to promote the sale of their new products and their expenses used to exchange information and to hold exhibitions and fairs can be included in their costs. Regarding the expenses used by enterprises to promote sales, 3 per thousand to 5 per thousand of the income from sales can be included in their costs.

The regulations stress that it is necessary to pay attention to the protection of the legitimate rights and interests of township enterprises. The regulations on the distribution of the income of township and village collective enterprises are: the rate of depreciation of the fixed assets is 10 percent of the original value; funds for education, 1.5 percent of the total amount of wages; and welfare funds 11 percent of the total amount of wages; and management fees must be paid according to county regulations. The foregoing four kinds of expenses are included in the costs for the same year. In addition, township and village enterprises must pay township authorities 10 percent of their profits before paying taxes and this money is to be used to support agriculture, to help the poor, and to do rural welfare work. No departments and units are allowed to indiscriminately apportion expenses and collect fees. It is imperative to respect township enterprises' decision making power in production, operation, and distribution. Banks must support township enterprises by issuing them loans. Proceeding from the overall situation, all departments must support, guide, and help township enterprises to speed up development in the aspects of capital, materials, technology, qualified personnel, information, supply, marketing, and transport. All places must also pay attention to putting township enterprise management organs at all levels on a sound basis.

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CSO: 4006/006

SMALL-SCALE ENTERPRISES

BRIEFS

SHAANXI TOWNSHIP, TOWN ENTERPRISES--The total income of the township and town enterprises of Shaanxi Province in the first half of this year was nearly 50 percent more than in the same period last year. The township and town enterprises of the province now have 1.78 million workers, accounting for 17 percent of the total labor force in the rural areas. Departments concerned have decided to set up 100 demonstration enterprises throughout the province in the near future to stimulate the continuous development of township and town enterprises. The province plans to transfer some 1.2 million agricultural laborers to township and town enterprises in five years. By the end of the Seventh 5-Year Plan period, according to the plan the number of the workers in the township and town enterprises in the whole province will increase to 3 million, which will account for 24 percent of the total labor force in the rural areas. The total income of the township and town enterprises will increase to 10 billion yuan, an increase of 100 percent over the last year of the Sixth 5-Year Plan period. [Summary] [Xian Shaanxi Provincial Service in Mandarin 0030 GMT 16 Sep 86 HK] /12913

CSO: 4006/006

BAOJI-ZHONGWEI RAILWAY TO BE CONSTRUCTED

Chengde JINGJI XIAOXI in Chinese 22 Apr 85 p 5

[Article: "Baozhong Railway Will Be Built as Joint State-Local Venture"]

[Text] The construction of a new railway trunk line traversing Shaanxi, Gansu and Ningxia and joining Baoji and Zhongwei has been formally approved by the State Council recently. This railway will be built as a joint venture of the state and the localities.

At present, from inland to the northwestern region, there is only the Baotou-Lanzhou Railway which also transports coal out of Ningxia and Nei Monggol. Its transport capacity is now severely strained. The materials to be transported in and out of the Northwest mainly rely on the Longhai Railway. Although the section between Baoji and Lanzhou of this railway has been electrified, and its traffic capacity has reached 12 million tons, the roadbed conditions between Baoji and Tianshui are very poor and the western portion is subjected to flood and landslides causing frequent interruptions. Therefore, a new railway is urgently needed to increase the traffic capacity and the capacity of mechanized transportation. In May 1984, the people's governments of Gansu, Ningxia, Qinghai and Xinjiang jointly submitted a proposal for the Baozhong Railway to be built.

The Baozhong Railway will begin at Guozhen Station of the Longhai line at Baoji. After passing through Qianyang and Longxian in Shaanxi, Ankou and Pingliang in Gansu, and Guyuan, Tongxin in Ningxia, and crossing the Huang He, it will join the Baotou-Lanzhou Railway at Luozhenbao Station and terminate at Yingshui Station. Its total length will be 510 km. It is connected with the Longhai Railway in the south and with the Baotou-Lanzhou, Gantang-Wuwei, and Lanzhou-Xinjiang railways in the north. It will become China's new thoroughfare to the northwestern region.

The construction of this railway will improve China's railway layout in the northwestern region and provide a shortcut to Sichuan from this region. It is especially significant in accelerating the developing the coal resources in Huating and ending the backwardness of the Xiji-Haiyuan area in Ningxia.

The Baozhong Railway will be a grade-one trunk line with an annual traffic capacity of 15 million tons. It will be built section by section, beginning with the Baoji-Ankou section of 135 km. One-third of the required investment will be borne by Gansu, and the rest will be shared by the other provinces along the railway. Construction will start in the near future.

9411
CSO:4006/1065

CONSTRUCTION

WORK STARTS ON BEIJING UNIT-PURCHASE RESIDENCES

OW151805 Beijing XINHUA in English 1630 GMT 15 Sep 86

[Text] Beijing, September 15 (XINHUA)--Work started today on Beijing's largest residential quarter, to be built with funds from future residents.

Situated in the southeastern part of Beijing, near the Temple of Heaven, the Fangzhuang complex will provide apartments for 21,000 families after completion in 1992.

"This is an experiment for the new construction system reforms," said Zhang Heng, deputy manager of the Beijing construction company in charge of the project. She said that her company would collect construction funds through various means and welcome investors at home and abroad to join in the project.

Unlike residences constructed with state funds and given to government employees as a kind of welfare, with the rent collected only covering maintenance costs, all apartments and part of public facilities of the project will be sold to individuals. People will have to pay for infrastructure facilities such as road, water, and sewer.

But the official did not say how the apartments would be sold and how much a typical apartment would cost.

Each building will be equipped with telephone service and the apartments with a floor space between 66 square meters and 108 square meters each will be divided into three grades.

There are telephones, air conditioners, and close-circuit television in high-grade apartments.

This is the largest and multi-functional residential district in Beijing equipped with office buildings, hotels, and commercial, cultural, medical, and sports centers as well as parking lots for bicycles, motorcycles, and motor vehicles, according to the official.

/9599
CSO: 4020/2

PAPER VIEWS GATT MEMBERSHIP APPLICATION, PARTICIPATION

Hong Kong WEN WEI PO in Chinese 15 Jul 86 p 12

[Editorial: "China's Participation in GATT May Boost World Trade"]

[Text] China already applied last week for the resumption of an official seat in the "General Agreement on Tariffs and Trade." In the application China clearly states that it wishes to join the organization under the status as a "developing country" not as a "planned central economy" because the significance of the two different statuses are very different in reality. The first difference is the degree of preferential treatment. By acquiring the status of "developing country" China will be automatically accorded the most-favored-nation treatment and therefore automatically enjoy the favorable treatment of tariff reduction and exemption. By acquiring the status of "planned central economy" alone China cannot automatically acquire the most-favored-nation status. The second difference is the difference of obligations. By acquiring the status of "developing country" China needs not to accord developed countries relevant favorable treatments or make excessive changes in China's current economic system. If China joins the GATT under the status of "planned central economy," China has to accord developed countries relevant favorable treatments and make relatively substantial readjustments in its own foreign economic policies.

Judged from current international situation as a whole, there is no problem that China will be accepted as a full member of the GATT. It is only a matter of time. The key lies in ridding developed countries of their concerns and shortening the process of negotiation as much as possible.

Developed countries have four concerns over China's participation in the "GATT":

1. They are afraid that after China joins the GATT under the status of "developing country" China's cheap exports will affect the markets of developed countries.

2. Developed countries fear that after joining, China will increase the negotiating strength of the Third World in the "North-South Dialogue" and affect the interests of developed countries.

3. Developed countries are afraid that after joining, China will become a precedent for other countries with planned central economies which, one after another will apply for membership, causing a model ogranization of free trade to gradually lose its free trade function.
4. They fear that after China joins, GATT may have one country with two votes. This will happen if Hong Kong also joins because Hong Kong always does whatever China tells it to.

These concerns of developed countries are described concretely in a secret report of the secretariat of the "OECD" (abbreviation of the "Organization of Economic Cooperation and Development," popularly known as the "Rich Countries' Club"). This report has circulated lately among diplomatic circles in Beijing.

Developed countries have various suggestions on how to handle China's application. Rumors among diplomatic circles indicate the following:

1. Consider China's application a special case and give China the status of not being completely a "developing country" nor a "planned central economy".
2. Extend the negotiating period as much as possible, some say at least 3 to 5 years.

3. Demand that China make more concessions, namely make readjustments in its foreign trade system and policies of an even larger scale..

In our opinion, the concerns of developed countries are unnecessary. First of all, they should realize that China is now reforming its economic system and that it is not satisfied with its own current foreign trade system. This is the reason why China is now consciously reforming its foreign trade system. As time passes, China's foreign trade system will improve substantially.

Second, they should realize that what developed countries are most unhappy about is the fact China uses the licence system in imports and exports and exercises control over foreign exchange, but they should also realize that these systems are aimed at China itself instead of foreign countries in the hope that exports and imports can be carried out in a more orderly manner.

Third, as of today, the dumping problem is only an imaginary fear because neither the United States nor other developed countries can prove that their markets have been affected by Chinese goods. Even in the most sensitive textile trade, there have not been many cases in which Europe and America adopted emergency measures to restrict Chinese imports.

Developed countries should realize that China's participation in the GATT will substantially expand the GATT's trading area. China has great resource and market potential. If developed countries give China a little support in the present stage, they will eventually increase China's ability to absorb foreign capital and commodities. Even the abovementioned OECD report which contains great doubts about China's participation cannot but admit: "It is hard to imagine the possibility of excluding from the world trade system a country whose economic potential--hence trade potential--increases annually." If so, why not cooperate in earnest and let China join this international organization at an early date.

12302
CSO: 4006/1246

FOREIGN TRADE AND INVESTMENT

INCREASE IN TRADE THROUGH HONG KONG REPORTED

Beijing RENMIN RIBAO [OVERSEAS EDITION] in Chinese 26 Jul 86 p 3

[Article: "Mainland China's Entrepot Trade Through Hong Kong Increases"]

[Text] According to the statistics of the departments concerned in Hong Kong, in the first 5 months of 1986, the gross value of products sold by the mainland China through Hong Kong reached HK$17.243 billion, an increase of 31.2 percent over the corresponding period of 1985. The proportion of mainland China's transit goods in Hong Kong's entrepot trade increased from 29.7 percent in the first 5 months of 1985 to 39.7 percent in the corresponding period of 1986.

The primary cause for the increase in mainland China's transit goods in Hong Kong is the steady recovery of European and American economies in 1986, the reduction of overseas inventories, and the expansion of demands for light industrial and textile products such as ready-made clothes, toys, and travelling goods which plus the rapid appreciation of European and Japanese currencies have made the products of mainland China relatively more competitive and enabled the sales of relevant transit goods to Europe and America to increase. Second, industrial production and marketing situations have taken a favorable turn in Asia and its neighboring areas, causing the consumption of industrial raw materials and semi-finished products to increase, especially demands for yarn and cloth, whereas mainland China happens to be the main supplier of such products. Third, Hong Kong businessmen's industrial investment in mainland China, the processing of imported materials, and compensation trade operations have further increased, causing the transfer of relevant products in Hong Kong to continue to increase on the one hand and counter trade to increase prominently on the other.

The entrepot trade of China through Hong Kong has been gradually changed to aim first at American and European markets and then at such countries and areas as Japan and Indonesia.

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FOREIGN TRADE AND INVESTMENT

STATE 'SPRUCING UP' FOREIGN INVESTMENT ENVIRONMENT

HK230525 Beijing CHINA DAILY (BUSINESS WEEKLY SUPPLEMENT) in English 17 Sep 86 p 1

[Article by Wang Xiangwei]

[Text] China is sprucing up its business climate in the wake of the first decline in foreign investment since it opened its doors to the world in 1979.

Complaints have been mounting from foreigners about bureaucratic delays, foreign exchange shortages, and daily business hassles. Chinese officials worry that the nation's glittering potential may be unduly tarnished.

A senior official from the Ministry of Foreign Economic Relations and Trade recently told BUSINESS WEEKLY the state is drawing up a set of measures to improve the investment environment and administration over joint ventures involving foreign investment.

Chu Baotai, deputy director of the Foreign Investment Administration of the ministry, said the best way to smooth out the problem of foreign currency shortages facing most joint ventures is to encourage them to produce goods needed on the international market.

"The problem of the acute hard-currency shortage will exist for a considerable time because the quantity of China's goods for export is very limited and the country needs so much technology and equipment for its modernization programmes," Chu said.

Both Sino-foreign joint ventures and state-owned factories are being encouraged to manufacture more goods for export, the deputy director added.

He said that formation of joint ventures focusing mainly on the domestic market will be discouraged.

As for joint ventures which have already gone into production, Chu said, they should increase the percentage of domestically made parts as much as possible to avoid the need to import.

He warned that joint ventures must depend on exports to balance their foreign exchange payments.

"In principle, the state will not be responsible for the hard-currency balance of joint ventures," he said.

However, he said, joint ventures whose marketing focuses on the international market will be given some priority in the supply of electricity and raw materials and in transport.

Taxation on those ventures will probably be relaxed even further as an incentive, he said.

To make exports easier, Chu said, the state has decided to extend the term of export and import licenses to 6 months, replacing the current need to obtain a license for each export or import.

At the same time, he said, the government is determined to deal with bureaucratic factors that frustrate foreign businessmen and to streamline procedures. "We will cut down some administrative departments that often interfere with the management of joint ventures."

In the past, he said, some governmental departments have hired or fired senior management personnel on the Chinese side in a joint venture without respecting the views of its board of directors.

He said that the government has singled out the Ministry of Foreign Economic Relations and Trade as the lone handler of foreign investment in order to simplify procedures.

As to complaints by some joint ventures about lack of qualified personnel, Chu said the ventures may file applications to the departments of labour and personnel for skilled workers.

And joint ventures may also advertise in newspapers. And those recruited by the joint ventures are allowed to resign from their factories.

Workers' wages on the Chinese side of a joint venture are allowed to be up to 150 percent higher than those of workers in state-owned factories.

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CSO: 4020/8

FOREIGN TRADE AND INVESTMENT

INQUIRY EXAMINES INVESTMENT VENTURES

HK170109 Beijing CHINA DAILY in English 17 Sep 86 p 2

[Article by staff reporter Chen Zhisong]

[Text] "How about the investment environment in China?" "What are the key goals established for the new venture?" "How do you believe your partner has met his commitment?" and "Do you feel that your business plan is being realized?"

These questions, among others, are listed in an intervienw guide presented to senior executives of some 50 equity joint ventures now operating in China.

They were prepared by the International Trade Research Institute of the Ministry of Foreign Economic Relations and Trade, and A.T. Kearney, Inc., International Management Consultants with headquarters in the United States.

The two sides agreed in May this year to carry out an investigation of China's joint ventures, to find suggestions for improving the investment environment.

China has so far established some 6,800 equity and contractural joint ventures with foreign countries and regions. About half of them have gone into operation, and many of them have been economically successful.

Problems

But, due to China's lack of experience, continuing economic reforms and shortcomings in the country's financial and legal systems, some joint ventures have hit problems, with the main grievances being over foreign exchange earnings and expenditures.

An official from the research institute said: "Our investigation seeks to clarify the situation by analyzing the problems in these ventures so we can seek solutions."

The inquiry is part of China's efforts to ensure that the joint operations can be successful. Last month, the government proposed several possible areas in which foreign investors could be granted specially favourable terms. The Bank of China is also amending its regulations on loans to joint ventures.

In the survey, other interviewees we selected are equity joint ventures in manufacturing industry with a combined investment of more than $1 million," said the official. There are now over 2,000 equity joint ventures in China.

The official said the ventures were well settled-in and had problems which epitomised those others in this sphere.

Joint ventures in service and light industries are relatively successful. But in high-technology and manufacturing, investors have found the returns to be definite but distant.

Under the agreement, the research institute will contact representatives from both sides of the management of these ventures in China while the American side will talk to corresponding top management executives of parent companies.

The 50 interviewees include big names such as AMC, American Standard, Beatrice, Bell Telephone, Foxboro, Gillete, Otis, Sanyo, Schindler, Smith Cline Beckman, Sun Refining, Squibb, and Volkswagen, and are mostly from the United States, Japan, and Western Europe.

Report

Results will be presented in both Chinese and English. The first draft will be ready by the end of next month. The two sides will then set up a workshop in the United States to evaluate the report before a final announcement in December.

A.T. Kearney is one of the five largest management and consulting corporations in the United States, with some 1,000 employees worldwide.

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CSO: 4020/8

HIRING, FIRING AUTONOMY FOR FOREIGN FIRMS UNDER STUDY

Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DURCH DIE WIRTSCHAFT in German
19 Aug 86 p 2

[Article by Sz., Frankfurt: "Spanner in the Works of Joint Ventures. How PRC Tries to Resolve Dissatisfaction of Foreign Partners. "Problem Recognized"]

[Excerpts] There are reports that three trade and economic offices have been tasked with preparing a country-wide study of the problems and of how to resolve them. A joint study has been compiled by the State Economic Commission, the Ministry for Foreign Economic Relations and the State Council's bureau for the special economic zones in which most of the affected enterprises are located.

The study, which has been completed, is based on a wishlist put together by the investors about the most important controversies, such as the settlement of foreign-exchange accounts, the high wages of Chinese employees and the overblown PRC bureaucracy. State sources indicated that the Commission is seeking--initially by way of seven basic changes--to establish more favorable conditions for foreign employees within the framework of the PRC economy.

These reportedly are: ... 6. Autonomy for foreign enterprises to hire, and if necessary fire, their Chinese employees. These enterprises must be permitted to advertise for Chinese personnel, instead of resorting to state employment offices. Foreign firms have accused the employment offices of inflating labor costs by demanding excessively high commissions. This personnel problem, which by the way was discussed by Zhang Shanmou, Chinese director general of Volkswagen in Shanghai, in a newspaper interview, has, from the very beginning, been one of the most complicated difficulties facing foreign-Chinese cooperation, and it is only a small consolation that purely Chinese businesses have voiced the same complaints. The Chinese argue that this is a matter involving the country's social structure which must not be violated.

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CSO: 4620/67

FOREIGN TRADE AND INVESTMENT

RENMIN RIBAO ON BRIGHT INVESTMENT PROSPECTS

OW191106 Beijing XINHUA in English 1041 GMT 19 Sep 86

[Text] Beijing, Sep 19 (XINHUA)--Foreign businesses investing in China will have brighter prospects as the economic situation becomes better and better, says a front-page commentary in today's "PEOPLE'S DAILY."

The commentary praises those investors who first opened enterprises in China 5 or 6 years ago when conditions were less favorable.

"Their confidence in China was not reduced by problems resulting from China's inexperience, or by the tedious process of reforming the old economic management system," the article adds.

These insightful investors not only looked at the present but could also foresee the future, it says.

Using a Shanghai-Hong Kong woolen mill formed in 1981 as a typical success story, the article credits this first joint-venture in the city of Shanghai with profits over 25 million yuan (6.75 million U.S. dollars) over the past 5 years.

According to the article, China is constantly working to improve its economic situation so that foreign enterprises can see rapid returns on their investments, and assure mutual benefit for all investors.

The commentary calls attention to Premier Zhao Ziyang's recent statement on China's intention to grant more preferential treatment to enterprises with direct foreign investment, and his call on ministries and local government to help create a better environment for investment.

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CSO: 4020/8

GOLD PRODUCTION RISING, 10.03 TONS EXPORTED SO FAR IN 1986

Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DURCH DIE WIRTSCHAFT in German
15 Aug 86 p 2

[Article, Hong Kong vwd: "China Expands Gold Production"]

[Text] The PRC is pushing its gold production and has vigorously expanded its gold sales this year. This reflects government efforts to build up PRC foreign-exchange reserves. Bankers working in gold trade at Hong Kong Square, which is considered to be Asia's most important gold market, are talking about the PRC's desire to become a gold producer with world stature.

The lion's share of this "China gold" is sold through Hong Kong, and the remainder goes through London, Zuerich and New York, according to the Hong Kong representative office of Schweizer Bankverein (Swiss Banking Association]. In the crown colony, Beijing channels its gold primarily through the Red Chinese So Sang Bank Ltd. When asked, it was only confirmed that this year they had traded more gold for the PRC account. However, no figures were mentioned.

However, taking Hong Kong's gold import statistics as a measure, makes it clear that PRC gold export operations have shifted to the crown colony. According to these statistical data, Beijing exported 10.03 tons of gold to Hong Kong during the first five months of this year--before the end of last year, it was only 20,135 grams. This gold equals 351 (1.5) million Hong Kong dollars. At the same time, Hong Kong's total gold imports in these five months fell to 31.72 tons, as compared with 105.5 tons during the same time last year. This was due to the fact that, at that time, the price of gold was largely stagnating. The PRC share of Hong Kong's gold imports jumped to almost 32 (0.2) percent during the period under review.

At the end of March 1986, Beijing's official foreign-exchange holdings totalled 10.35 billion U.S. dollars, compared with 15.87 billion U.S. dollars in September 1984. Diplomatic circles in the crown colony believe that the majority of all current gold sales are made from production increases rather than existing gold reserves. International Monetary Fund (IMF) estimates put them at 12.7 million fine ounces as of February 1986, and they have remained unchanged since 1981, according to other IMF information.

On the other hand, PRC gold production, unlike its stagnating gold holdings, has staedily and vigorously grown over the years. During the first 7 months of this year, PRC gold production rose by 3.7 percent over what it was last year and reached its highest level since the Communist takeover. Still, the official news from the PRC gives no absolute figures. In the past, the Red Chinese have always kept their actual gold production figures a secret.

7821
CSO: 4620/67

BRIEFS

TIES WITH HONG KONG--Beijing, 6 Sep (XINHUA)--The Chinese mainland is now the biggest investor in Hong Kong, with its investment there amounting to 5 billion U.S. dollars by the end of 1985. Meanwhile, Hong Kong had invested 2.3 billion U.S. dollars in the Chinese mainland, more than any other country or region, today's overseas edition of the "PEOPLE'S DAILY" reported. Mainland firms introduced 4.79 billion U.S. dollars in foreign funds between 1979 and 1984, the paper reported. Of this, 46.5 percent came from Hong Kong and Macao, primarily from Hong Kong. [Text] [Beijing XINHUA in English 0010 GMT 6 Sep 86] /9599

AGRICULTURAL MACHINERY EXPORTS--Beijing, 17 Sep (XINHUA)--The state will subsidize the development of up to five centers producing agricultural machinery for export, the "PEOPLE'S DAILY" reported today. The paper said the centers will open by 1990 and would concentrate on improving the quality of current products and on developing new exports. China sells agricultural machinery to 99 countries and regions in Western Europe, North America, and Southeast Asia. Leading products include small diesel engines, light and medium-sized tractors and internal-combustion electric generators. [Text] [Beijing XINHUA in English 1109 GMT 17 Sep 86] /9599

RISE IN FOREIGN TRADE REPORTED--Beijing, 18 Sep (XINHUA)--China exported goods valued at 18.8 billion U.S. dollars in the first 8 months of this year, up 15.7 percent over the same period last year. Meanwhile, the imports during the same period showed an increase of 6.7 percent, an official of the general administration of customs said here today. Textiles have become the main export of China, with crude and refined oils ranking second, the official noted. Exports of farm produce, coal, chemicals, pharmaceutical supplies and machine tools also increased. Economists attributed the good result to preferential policies encouraging enterprises to produce more exports, with cooperation between industry and government trade departments improving. Despite the achievements, the official called on industry and government organizations to achieve even greater results for the remaining 4 months of 1986. [Text] [Beijing XINHUA in English 1650 GMT 18 Sep 86] /9599

PRC RAILROAD AID CONTINUES--According to a high-ranking PRC Government delegation, the PRC will make available experts, trainers and spare parts so that, if South Africa should impose economic sanctions, railroad transportation in the countries of southern Africa can continue. [Dispatch from Frankfurt/Main: "PRC to Continue Support of Zambia and Lusaka Railroad"] [Text] [Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DURCH DIE WIRTSCHAFT in German 12 Aug 86 p 2] 7821

ZAMBIAN RAILROAD AID CONTINUES--According to a high-ranking PRC Government delegation, the PRC will make available experts, trainers and spare parts so that, if South Africa should impose economic sanctions, railroad transportation in the countries of southern Africa can continue. [Dispatch from Frankfurt/Main: "PRC to Continue Support of Zambia and Lusaka Railroad"] [Text] [Frankfurt/Main FRANKFURTER ZEITUNG/BLICK DURCH DIE WIRTSCHAFT in German 12 Aug 86 p 2] 7821

CSO: 4620/67

SPECIAL ECONOMIC ZONES

SPECIAL ECONOMIC ZONES DEVELOPMENT FAVORABLE

OW170808 Beijing XINHUA in English 0751 GMT 17 Sep 86

[Text] Beijing, Sep 17 (XINHUA)--More than 100 projects involving foreign investment have been signed in 11 economic and technological development zones in coastal cities, according to the State Council's special economic zone office.

The 11 development zones are in the coastal cities of Dalian, Tianjin, Qinhuangdao, Qingdao, Yantai, Lianyungang, Nantong, Ningbo, Fuzhou, Guangzhou, and Zhanjiang and received approval from the State Council in 1984 to open to foreign investment.

Of the signed projects, over 20 have already started production and by the end of this year another 30 will begin operation.

The development of new technology and products account for 13 percent of the total and projects focusing on exports make up more than half the total.

The projects include Danhua bicycle plant, a Sino-Danish joint venture in Tianjin, Yaoxing marine products processing plant, a joint venture of Zhanjiang and Hong Kong using advanced fast-freeze equipment imported from the United States, and a fur garment plant, a Sino-Japanese joint venture in Dalian.

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CSO: 4020/8

LABOR AND WAGES

FIVE-DAY WORK WEEK IN INDUSTRY, SERVICE UNDER CONSIDERATION

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 14 Aug 86 p 9

[Article by rw., Beijing: "PRC Considers Five-Day Week"]

[Text] The PRC is thinking about the gradual introduction of the 40-hour work week. At present, most Chinese in the cities work 48 hours a week. A high-ranking official of the national Research Center for Science and Technology said in Beijing that industrial enterprises and the state's service industry will be the first sectors where a possible five-day work week will be studied. He said that modernization has resulted in significant productivity increases of industry. More leisure time encourages people to seek continued education and furthers family harmony, and tourism and other service sectors would benefit from it. The official also quoted Karl Marx as saying that social progress is primarily measured in terms of leisure time that is available to the people.

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CSO: 4620/67

POPULATION

NATIONAL CONFERENCE ON PROBLEMS OF AGED OPENS

OW161828 Beijing XINHUA in English 1621 GMT 16 Sep 86

[Text] Beijing, 16 September (XINHUA)--Timely measures should be taken to meet the problem of the increase in China's aged population in the next few decades as a result of a decrease in the birth rate and longer life expectancy.

People over the age of 65 will account for 7 percent of the total by the year 2000, as against 5 percent in 1985, according to a meeting which opened here today to discuss the problems of the aged.

Old people will make up an even bigger part of the population between 2020 and 2040, the meeting, which also discussed retirement insurance, was told.

China is economically backward, but the population is aging more quickly than that in many developed countries, the participants noted.

The present retirement insurance system, which is mainly operated by state-owned enterprises, will no longer be able to meet the changing situation, Zhang Shou, vice minister of the State Planning Commission, told the meeting.

As more and more people are engaged in collectively and individually-owned businesses and rural industries, the scope of insurance policies should be increased to meet the needs of aged workers of these categories as well. There is also an urgent need to establish special retirement insurance politics for the rural population of 800 million, Zhang said.

The state, the collectives and individuals should pool their efforts to collect more insurance funds for the aged, Zhang suggested, stressing that the past practice of putting the whole burden on the state would no longer be practical. He urged the whole of society to show concern for the welfare of the aged and push for appropriate legislation.

The experiences and lessons of other countries, especially those of the developed countries, in this field are worth learning from, Zhang said.

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CSO: 4020/003

SHANXI NOTES 'PARTIAL LOSS OF POPULATION CONTROL'

HK160159 Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 15 Sep 86

[Text] At a recent provincial family planning work conference urgently convened by the provincial government, Vice Governor Feng Zhimao stressed that the key to reversing the passive situation of partial loss of population control in the province lies in resolving the problems of understanding among the leaders at all levels and focusing on improving work in backward counties and districts.

The leaders of 28 backward counties and districts in family planning work who attended the meeting fully realized the gravity of the partial loss of population control in the province. Analyzing the reasons for the backward situation in their own areas, they pointed out that the cadres lack sufficient understanding of the significance of population control; they have failed to get a good grasp of the work and lack correct understanding of the spirit of central document No. 7. They are incapable of grasping the two kinds of production together. They have not got a tight grasp of pilot projects in perfecting the birth policy and popularizing their experiences. Ideological education has not been carried out in depth. The policy provisions have not been strictly implemented, and their effects have not been guaranteed. Work methods are not good enough, and management measures have not been firmed up. A few party-member cadres are unable to set an example; this has had a bad effect.

On the basis of analyzing the reasons and enhancing understanding, the [word indistinct] decided that it is urgent to grasp the following tasks in order to change reverse the passive situation of loss of population control.

1. The leaders at all levels must fully realize the harm done by the current partial loss of population control in Shanxi [words indistinct].

2. Teach the cadres and masses to establish a new concept of birth.

3. Unswervingly implement the birth policies and block loopholes in family planning work. A first birth must be planned, a second must be [word indistinct], and a third must be prevented. It is necessary to set strict demands on party and CYL-member cadres, and they must resolutely act according to the demands of the open letter of the central authorities.

4. Get a good grasp of comprehensive handling of the problems and coordinate the efforts of all departments to get a good grasp of focal points. It is necessary to seek truth from facts, act in light of local conditions, and provide appropriate guidance.

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CSO: 4006/006

LI PENG ADDRESSES DEFENSE TRANSPORT CONFERENCE

OW120033 Beijing XINHUA in English 1523 GMT 11 Sep 86

["Defense Transport Sector Should Shift to Civilian Construction"--XINHUA headline]

[Text] Beijing, September 11 (XINHUA)--China's defense transport and communications sector should serve the country's economic development efforts and shift to civilian construction, Vice-Premier Li Peng said here today.

Addressing an on-going conference on defense transport construction, he said, "China is now facing a relatively peaceful international environment and a domestic environment marked by stability and unity."

"Now is an excellent time for us to speed economic construction," he told the conference. Economic construction is China's first consideration, and therefore defense construction, including the work of transport for preparations against war, must be subordinate to it.

"With this in mind, we should see to it that the defense transport and communications sector serves the needs of both peacetime and wartime," he added.

He called for a change in the guideline of China's defense work thorugh readjustments and reforms. "But this does not mean that we will give up the work. On the contrary, we'll do it more efficiently than before," he said.

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CSO: 4020/2

DALIAN TO OPEN AIR ROUTE TO HONG KONG

Airport Renovation Project Begun

OW110805 Beijing XINHUA in English 0748 GMT 11 Sep 86

[Text] Dalian, September 11 (XINHUA)--Dalian airport will open an air route to Hong Kong later this year to become the first international airport in northeast China, an official of the Dalian Municipal Government told XINHUA today.

The city government has already invested in an airport renovation project, he added, and with the approval of the State Council, the city also plans to open air routes to Japan.

After the recent approval of 84 joint ventures with foreign firms totaling 325.37 million U.S. dollars, the Dalian City authorities are busy improving hotel service, harbor facilities, and telephone service to handle the demands of growing economic activities and foreign investment, he said.

As a major port and coastal city, Dalian is receiving a growing number of ocean-going vessels. The city also began an overall reconstruction of harbor facilities this year.

Flights Scheduled

OW131319 Beijing XINHUA in English 1151 GMT 13 Sep 86

[Text] Dalian, September 13 (XINHUA)--An air service from Dalian, a leading trading port and one of the 14 coastal cities now open to foreign investment, to Hong Kong will open September 24.

The new route will be served by return flights once a week, according to a spokesman for the city government at a news briefing today.

Dalian, also a tourist center, attracts large numbers of businessmen and visitors. Until now, passengers from Hong Kong to Dalian have had to change planes at Beijing or Guangzhou.

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CSO: 4020/2

MORE CIVILIAN AIRPORTS UNDER CONSTRUCTION

HK111545 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0331 GMT 11 Sep 86

[Text] Beijing, 11 September (ZHONGGUO XINWEN SHE)--This reporter has learned from the planning department of the Civil Aviation Administration of China [CAAC]: After being extended and renovated, four large and medium-sized airports of the CAAC have been commissioned this year and another four newly built or extended small and medium-sized airports will be commissioned this year. The construction of six new airports has also started this year.

The CAAC now has 90 airports, of which 83 handle regular flights. However, they are still unable to meet the rising needs of the civil aviation undertakings. For this reason, during the Seventh 5-Year Plan period, the Chinese Government will invest a large amount of money to build or extend 40-odd airports, chiefly airports at international gateways, provincial (regional) capitals, important economic zones and tourist places, open coastal cities, and some areas with poor transport facilities.

The four large and medium-sized airports that have been commissioned this year are in Dalian, Qingdao, Changchun, and Haikou. The four small and medium-sized airports that will be commissioned this year are in Huhhot, Shashi, Beihai, and Yinchuan. The Beihai Airport is a new project.

The construction of six new airports in Luoyang, Chongqing, Changsha, Shantou, Yulin, and Nanchong has started this year. Efforts are being made to start the construction of three airports in Ningbo, Xian, and Shenyang this year.

Moreover, the government has started construction of airports in Kunming, Wenzhou, Xining, Dayong, Xiangyang, and Guanzhou. The airport designs are being made so as to start the projects in the first half of next year. The government has also approved the construction airports in Jinan, Wuhan, Nanjing, Yantai, and Nantong but the designs for the airports have yet to be made.

Designs are being made for the departure lounges at Shanghai Airport, Guangzhou Baiyun Airport, and Chengdu Airport.

With regard to the construction of the Shenzhen and Zhuhai airports, the State Planning Commission has entrusted the China International Project Consultancy Corporation with the investigation and demonstration work.

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CSO: 4406/3

BRIEFS

NATIONAL DEFENSE HIGHWAYS--Beijing, 6 September (XINHUA)--Many highways, originally built for national defense purposes in the early period after the founding of the People's Republic, have now become a major part of China's transportation network, producing remarkable economic benefits. Besides, since 1979, the departments concerned have revised the national defense highway construction plan by paying attention to the economic benefits that these highways may also produce. Over the seven years since then, approximately 1.8 billion yuan have been invested in building and renovating some 7,600 kilometers of national defense highways, all of which also serve as main transportation lines for the state and for the provinces or autonomous regions concerned. [Summary] [Beijing XINHUA Domestic Service in Chinese 0642 GMT 6 Sep 86 OW] /12913

TRUCKING TRANSPORT OF GOODS--Tianjin, 10 September (XINHUA)--Often congested more than one year ago, Tianjin port has remarkably changed its outlook by making good use of trucks in transporting its overstocked freight. Currently, there are about 1,500 trucks to transport goods and materials here every day. The time span of goods in port has been reduced from a former eight and a half days to six days. While inspecting Tianjin recently, Premier Zhao Ziyang pointed out: To use trucks to solve the problem of overstocking at the port is a crucial matter and a very practical issue as well. When cargo is sent within one to two hundred miles, it should be transported by trucks as much as possible so that the traffic will get through, thus linking up with the ship unloading. At present, the freight volume transported by trucks accounts for more than 40 percent of total transported goods and materials. Using highways and railways, respectively, to deliver cargo has solved the problem of overstocking and has ensured the immediate delivery of goods as soon as they arrive. [By Reporter Yin Keshan] [Excerpts] [Beijing XINHUA Domestic Service in Chinese 2336 GMT 9 Sep 86 OW] /12913

MORE HIGHWAYS FOR QINGHAI PROVINCE--Xining, 16 Sep (XINHUA)--Qinghai Province in northwest China has built and rebuilt highways totaling 2,400 kilometers over the past 5 years. This has not only helped offer a more pleasant journey for tourists but also promoted the development of transportation in the province on the world's highest Qinghai-Tibet Plateau, said an official from the provincial transportation department. During the 1980-85 period, the province added new highways totaling 436 kilometers, rebult highways of 1,063 kilometers, and had 925 kilometers of highway asphalted. With 15,933 kilometers of improved roads in the province, the highways now link 97 percent of the townships in this sparsely populated area covering 720,000 square kilometers, the official said. Over the past 5 years, a total of 420 million yuan (114 million U.S. dollars) of government investment and money pooled by localities has been spent on highway construction, he said. [Text] [Beijing XINHUA in English 0159 GMT 16 Sep 86] /9599

CSO: 4020/2

EXPORT BOOM UNAFFECTED BY NT DOLLAR APPRECIATION

OW091145 Taipei CNA in English 0959 GMT 9 Sep 86

[Text] Taipei, Sep 9 (CNA)--Despite the appreciation of the NT dollar, the nation's exports increased over the past months and outperformed those of Japan, South Korea, Hong Kong, and Singapore.

The booming exports indicated that most domestic enterprises are quite able to adapt to the rise of the NT dollar, an official of the Council for Economic Planning and Development, said Monday.

In the past year, the NT dollar rose nearly 7 percent in value, but the South Korean and Hong Kong currencies declined slightly. However, the nation's exports in the first 8 months exceeded U.S. $25 billion, more than South Korea's U.S. $22.4 billion. Both nations' exports increased at an annual rate of 23 percent, the official pointed out.

Japan's exports, affected by the more substantial rise of the Japanese yen, shrank appreciably during the same period, while Hong Kong's exports grew only 5 percent and Singapore's remained stagnant.

The increasing national trade surplus will continue to strengthen the NT dollar in the coming months, he said. But he said the plunge of the U.S. dollar against the Japanese yen and the German mark will offset the inflationary pressure of the NT dollar's rise on the nation's exports.

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CSO: 4020/7

DECISION TO CUT TARIFFS TO OPEN MARKET

OW110515 Taipei CNA in English 0247 GMT 11 Sep 86

[Text] Taipei, Sep 10 (CNA)--A decision was made in an inter-ministries meeting Wednesday to cut tariffs on a list of 1,200 items, such as automobiles, compact disc players, cameras, air conditioners, refrigerators, motorcycles, and motorcycle spare parts.

The decision was the last of a series of government moves in the 6-day meeting joined by officials from the finance and economics ministries, the Council of Agriculture, and other government agencies to further open the market to foreign goods.

The meeting upheld the proposal submitted by the MOEA that the import duties levied on heavy trucks shall be cut 2 percent to 58 percent, station wagons 5 percent to 55 percent, and auto spare parts will be slashed from the present 35-20 percent to 20-15 percent.

The import duties on motorcycles will be lowered from the present 65 percent to 55 percent, some motorcycle spare parts from the current 25 percent to 15 percent.

Other items on which the meeting agreed to lower import duties are: compact disc players, watches, toys, furniture, shoes, cameras, and sports ware.

The tariff cuts will enter into force after the tariff regulations are officially revised by the end of September and approved at a later date by the Executive Yuan.

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CSO: 4020/7

HIGH TECH RESEARCH, DEVELOPMENT PLANS APPROVED

OW150547 Taipei CNA in English 0248 GMT 15 Sep 86

[Text] Taipei, Sep 14 (CNA)--The Ministry of Economic Affairs [MOEA] has decided to spend NT $4.62 billion (some U.S. $125 million) to promote more than 20 high technology research and development projects in fiscal 1988, particularly emphasizing the study of pollution control and prevention technologies, MOEA Minister Li Ta-hai said over the weekend.

MOEA, in a meeting of the ministry's department heads gave the go signal to those research and development projects to be promoted by the Industrial Technology Research Institute, the Center for the Development of Metallurgy Industry, the Textile Research Center and other research institutes.

The budget for high tech research and development in fiscal 1988 represents an increase of 22 percent over the NT $3.8 billion set aside for fiscal 1987, Li noted.

The R&D projects focus on information electronics, mechanical engineering, petrochemicals, materials science and other strategic high technologies, with particular emphasis being placed on industrial pollution control so as to meet the ever increasing demand for environmental protection.

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CSO: 4020/7

FINANCE MINISTRY TO REVIEW IMPORT TARIFFS

OW172025 Taipei CNA in English 1458 GMT 17 Sep 86

[Text] Taipei, Sep 17 (CNA)--Finance Minister Robert C. Chien said his ministry has decided to make an all-out review on the current import tariffs and, in principle, will readjust downward the average maximum tariff rate from the current 67.5 percent to 57 percent.

Chien said that the government, in order to fully carry out trade liberalization and internationalization, will also lower the import tariffs on those products for which the Republic of China is exporting like products on a large scale, including textiles.

Chien made the remarks Wednesday while reporting tc the Kuomintang Central Standing Committee on "a review and outlook of the ROC's tax system."

The minister pointed out that his ministry will review the newly implemented value-added business taxation system, improve the tax returns reporting formalities and study ways to prevent tax evasion. He also said that the government will study to eventually abolish the widely discussed stamp, goods, and slaughter taxes.

Coping with the government's policy of promoting the development of sophisticated technology, Chien said his office has decided to revise concerned regulations giving incentives to investments on high technology industries by deducting taxes.

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CSO: 4020/7

BRIEFS

MOEA TO SPUR INVESTMENT ABROAD--Taipei, 13 Sep (CNA)--The Ministry of Economic Affairs [MOEA] is planning to set up a large-scale industrial investment company in the near future to help domestic business interests invest abroad, MOEA Administrative Vice Minister Wu Mei-tsun said Saturday. To encourage and assist ROC [Republic of China] businessmen to invest abroad and effectively ease pressure brought by the nation's excessive foreign exchange reserve, Wu said it is time for the country to establish such a company. Wu said, an MOEA investigation of ROC's investment abroad showed that domestic businessmen have not made much investment overseas due to the lack of competent and qualified personnel and not being familiar with foreign laws and regulations related to investment. [Text] [Taipei CNA in English 0324 GMT 15 Sep 86] /9599

CSO: 4020/7

ECONOMIC STABILITY REPORTED GROWING IN HONG KONG

OW162229 Beijing XINHUA in English 1537 GMT 16 Sep 86

[Text] Hong Kong, Sep 16 (XINHUA)--Hong Kong is enjoying growing economic stability and its residents have renewed their confidence in the future since the Sino-British agreement on the future of Hong Kong was signed 2 years ago.

This comment was made in the latest issue of the monthly, "ECONOMIC REPORT," published by the Hong Kong and Shanghai Banking Corp. here.

The report says that Hong Kong appears set to enjoy a sustained period of growth and will continue to "retain its status as one of the more successful and dynamic territories" in the region for many years to come.

"The Hong Kong dollar is no longer a victim of intense speculation," it said, adding that Hong Kong's inflation has remained steady and the region continues to enjoy almost full employment and rising real incomes.

Along with the improved property market, private home ownership has increased 20 percent to more than 300,000 units over the past 2 years.

The Hang Seng Index of the local stock market has reached successive highs, peaking at 1998 last week. This represents an increase of almost 100 percent since September 1984. The total turnover in 1985 rose by 55 percent to 76 billion H.K. dollars (about 9.74 billion U.S. dollars).

Despite the threat of the Jenkins Bill and the uncertainties associated with the negotiations on a new multi-fiber agreement, the textile sector, Hong Kong's leading industry, responded to the rise in demand by "re-equipping itself with new and better machines."

Referring to domestic exports, which experienced a difficult time in 1985, the report says that the revival of domestic exports since March this year has reaffirmed the vitality of Hong Kong's economy.

Domestic exports rose 14 percent in the second quarter of this year, surpassing the government's projected annual growth rate of 8 percent.

In addition, the Hong Kong Government has re-balanced the fiscal books after 3 consecutive years of deficits, the report says.

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CSO: 4020/7

- END -